Sugar & Energy Markets

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
The potential for biofuels production and use is due to factors such as:

- Environmental concerns – Kyoto & Bali Protocols, and potential to mitigate climate change through greenhouse gas emission reductions
- Important variation in crude oil prices
- International security concerns related to regions reach in crude oil resources (Middle East, Africa/Nigeria, Central America, Russia)
- Actions to improve farm incomes and boost rural economies
- Energy access in underserved areas: poor urban and rural off-grid communities
- Potential to improve trade balances
- New job creation, investment opportunities, increasing economic output
Advantages of using sugarcane ethanol in terms of productivity & environmental performance

<table>
<thead>
<tr>
<th>Country/Union</th>
<th>USA</th>
<th>EU</th>
<th>EU</th>
<th>Brazil</th>
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<tbody>
<tr>
<td>Feedstock</td>
<td>Corn</td>
<td>Wheat</td>
<td>Sugar beets</td>
<td>Sugar cane</td>
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<tr>
<td>Productivity</td>
<td>3,800/4,000</td>
<td>2,500</td>
<td>5,500</td>
<td>7,000/7,100</td>
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<tr>
<td>GHG reduction</td>
<td>&lt; 38%</td>
<td>16% - 69%</td>
<td>52%</td>
<td>61%-91%</td>
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*Sources: IEA, EU Commission, EPA, UNICA

- Sugarcane is the principal feedstock used for ethanol production in Brazil and is considered as an advanced biofuel in the US due to its high percentage (over 61%) reduction of total life cycle GHG emissions including ILUC

- Brazilian ethanol is somewhere at the border between 1st generation of biofuels and the 2nd generation ones. **U.S. pays a premium for this, while the E.U. doesn’t**
• CS Brazil is the biggest sugar producer in the world
• CS Brazil is the 5th world sugar consumer
• CS Brazil has 54-55% share in world raw sugar exports
*Due to its early implementation in Brazil and the US, after the oil crisis from ‘70s, the world ethanol market increased annually and dominate the biofuels world. Biodiesel was implemented much later but it managed to grow rapidly in recent years.

In 2013 world ethanol demand was **2.8** x higher than the biodiesel one while in 2008 was almost **3.9** x bigger.

***IEA forecast for 2016 - Biofuels production: +28% from 2010 figures***
No major changes were seen in the past decade as main players are the same

- **US, Brazil and the EU27:** about 91% of world fuel ethanol production
  - about 88% of world fuel ethanol consumption
- **US & Brazil:** more than 75% of World exports
Biofuels demand driven by mandates/Renewable Fuel Standards (Obligations)

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<tbody>
<tr>
<td>Cellulosic biofuel</td>
<td></td>
<td>0.1</td>
<td>0.25</td>
<td>0.5</td>
<td>1</td>
<td>1.75</td>
<td>3</td>
<td>4.25</td>
<td>5.5</td>
<td>7</td>
<td>8.5</td>
<td>10.5</td>
<td>13.5</td>
<td>16</td>
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<tr>
<td>Biomass-based diesel</td>
<td>0.5</td>
<td>0.65</td>
<td>0.8</td>
<td>1</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Any other advanced biofuel</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
<td>0.75</td>
<td>1</td>
<td>1.5</td>
<td>2</td>
<td>2.5</td>
<td>3</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>4</td>
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<tr>
<td>Advanced biofuel</td>
<td>0.6</td>
<td>0.95</td>
<td>1.35</td>
<td>2</td>
<td>2.75</td>
<td>3.75</td>
<td>5.5</td>
<td>7.25</td>
<td>9</td>
<td>11</td>
<td>13</td>
<td>15</td>
<td>18</td>
<td>21</td>
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<tr>
<td>Any other renewable biofuel</td>
<td>10.5</td>
<td>12</td>
<td>12.6</td>
<td>13.2</td>
<td>13.8</td>
<td>14.4</td>
<td>15</td>
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<tr>
<td>Total Renewable fuel</td>
<td>11.10</td>
<td>12.95</td>
<td>13.95</td>
<td>15.20</td>
<td>16.55</td>
<td>18.15</td>
<td>20.50</td>
<td>22.25</td>
<td>24.00</td>
<td>26.00</td>
<td>28.00</td>
<td>30.00</td>
<td>33.00</td>
<td>36.00</td>
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*Increased to 1.28 in Sept12 for 2013*

*Subject to further annual increases*

*Usually cut/waived as not much cellulosic biof. capacity exists*
USA – main feedstock used for ethanol production is **corn**

*About 99% of the US ethanol production uses **corn** as feedstock. Among the other feedstock used which sum up 1% one can mention: wheat starch, milo, waste ethanol, separated food waste, etc.*

*The US corn used for ethanol production accounted for **42.6%** of total corn produced in the US with **35.9%** of it being recovered from the ethanol production process in the form of DDGs.*
In Europe ethanol is mainly made from grains. It represents only 3.7% in total consumption of cereals in the EU27.

Source: E.C., FranceAgriMer

EU27: Ethanol production by feedstock
- Grains: 67.07%
- Beet: 23.41%
- Vinous: 3.03%
- Other: 6.48%

EU27: Ethanol use by sector in 2011
- Fuel: 70.27%
- Food & beverage: 13.64%
- Industrial: 12.45%
- Other: 3.64%

Source: EC, FranceAgriMer

Evolution of EU ethanol use by sector:
- Fuel: Increase from 2008 to 2011
- Food & beverage: Slight decrease from 2008 to 2011
- Industrial: Steady decrease from 2008 to 2011
- Other: Steady increase from 2008 to 2011
Brazil: Same cane used for both sugar and ethanol production

- Sugar and ethanol production seen as functions of cane output
- CS Brazil has a 90-93% share in total Brazilian cane production
In Brazil there is a flexibility to switch between sugar and ethanol.

Starting 2006 the industry growth switched to ethanol due to an increasing number of FFV vehicles and an increased demand for fuel ethanol.

Sugar mix was maximized in 11/12 due to high global sugar prices.

Since then, things came back to normal as Brazilian ethanol is feeding an increasing domestic demand and also the world market.
Brazilian car fleet structure

Flex-fuel cars have the capacity to increase ethanol consumption and impact the sugar production as total fuel demand increased by 30% in 2008-2013 period and by 79% in 2004-2013 period

• Flex-fuel cars account for 87-94% of monthly sales
• Flex-fuel cars share in total fleet is increasing: now around 57%-58%
Brazil: How is the mix impacting both sugar and ethanol production?

- A 2% variation in the sugar mix represents around 1.55 mln mt of sugar or 1 bln ltr of ethanol
- At 585 mln mt of cane, an avg ATR at 135.5 the ± 2% variation of the sugar mix represents a range of 3 mln mt of sugar (or 2 bln ltr of ethanol)
- At a global sugar market in balance, only the Brazilian mix could turn the balance from 1.6 mln deficit to a 1.6 mln surplus
- The effect of the sugar mix on the sugar production is very important: it can bring the world market into a surplus, into balance or into a deficit
Can electricity prices change the mix? ...make mills more profitable?

- Why a higher ethanol mix could also happen?
  - the “liquidity” of ethanol: it can be sold more quickly (especially hydrous)
  - high electricity prices encouraging mills to maximize cogeneration by producing more hydrous ethanol (less steam is used in the process)
Diversification already happening in other countries (co-gen, bio-plastics)

- Diversification: ethanol, electricity, bio-plastics
- Market potential for bio-plastics is enormous: production capacity expected to rise from 1.4 mln mt/year (2012) to 6.2 mln mt/yr (2017)
- Many countries have already well-established cane-bagasse electricity programs. Important co-generation installed capacity in Central America
- Nicaragua and Guatemala having reached levels above 25% of total energy consumption sourced from bagasse co-generation
- Co-generation growth will be the main driver behind the rise in cane acreage in the region
Thank you for your attention!

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