Globalization and the Brazilian Sugarcane Industry
By Marcos Jank

The rising flow of foreign capital to the Brazilian sugar and ethanol industry observed in recent years has clearly picked up speed in early 2010, with the confirmation of four major transactions in the first few weeks of the year. This has ignited the perception that Brazil's traditional sugarcane industry, the country's first documented economic activity, is moving rapidly towards a new reality, different from what we know today.

Foreign capital is not new to the industry and isn't necessarily dominant, as illustrated by one of those recent transactions: the merger involving Brenco and ETH, in which domestic capital is by far in the majority. However, historical accounts show that foreign involvement was already a factor in the sixteenth and seventeenth centuries, when sugar was literally worth its weight in gold in Europe.

Early in the 20th Century, the French Group Sucrerie built Brazil's first large centralized mills in Rafard, Porto Feliz and Piracicaba, in the state of Sao Paulo. During the Proálcool phase in the mid 1970s, when large-scale ethanol production and use began, British companies were actively involved as cane suppliers for some of the top sugar and ethanol producers of that time, including Guarani, Santa Elisa and Generalco.

With the end of direct government intervention in sugar and ethanol production and commercialization in the late 1990s, the French were once again the first to invest. In 2000, the Cosan Group – which joined Shell in January in the largest sugarcane industry transaction to date, partnered with the French group Union SDA. Subsequently, SDA merged with other French cooperatives that had previously acquired Beghin Say, which in turn had bought control of Açúcar Guarani in 2001. The merger of these cooperatives in 2002 led to the creation of France's Tereos Group, which emerged as the controller of Guarani in Brazil.

Also in 2002, another French group, Louis Dreyfus, acquired the Cresciumal mill in the town of Leme, in São Paulo state. That turned out to be the first step in the development of what is now the second largest group in the Brazilian sugarcane industry in terms of overall cane crushing: LDC-SEV, or Louis Dreyfus Commodities – Santelisa Vale. The group reached its current status in 2009 with the acquisition of Santelisa Vale, one of the most traditional companies in the industry.

Completing the series of transactions in early 2010 are the acquisition of Grupo Moema by the U.S.-based agribusiness and food giant Bunge, followed by the arrival of India's largest sugar refiner, Shree Renuka Sugars. The Indians obtained a 50.8% stake in Equipav Sugar and Alcohol, with plants in the cities of Promissão and Brejo Alegre, in São Paulo state.

Trailing all this activity is a series of events that became more noticeable in the first decade of the new millennium, with the industry in Brazil functioning freely and without government controls. This has truly been the decade of the rise of the cane industry, with efficiency and productivity gains that could only have occurred in a free market environment. Brazilian ethanol has jumped into the global spotlight as an efficient and renewable energy solution, essential at a time when the world is searching for ways to deal with the challenges of global warming.

This aspect has earned global headlines with the recent decision by the U.S. Environmental Protection Agency (EPA), which confirmed that sugarcane ethanol produced in Brazil is an "advanced biofuel". Official recognition that Brazil's brand of ethanol reduces CO2 emissions at a much higher level than any other biofuel currently available opens the doors to future expansion of ethanol exports.

In Brazil, the introduction of Flex-Fuel Vehicles (FFVs) in 2003 accelerated domestic growth and carried world attention on the cane industry to a new peak. That helped to solidify a new profile for ethanol, in line with the planet's most urgent environmental needs and concurrent with a number of strategic and technical advances in the industry, leveraging efficiency and commercial viability of the Brazilian renewable fuel project.

What we see today is the result of more than three decades of achievements by the sugar-energy industry, which transformed Brazil into a successful case in the production and large-scale use of a renewable, low-carbon fuel that happens to be precisely what the world currently craves for. Achievements that were heavily, but understandably questioned, since something that is part of Brazil's routine since the 1970s emerged as a novelty for those living in other parts of the planet. As a consequence of growing world interest, the Brazilian Sugarcane Industry Association (UNICA) welcomed more than 320 foreign delegations in 2008 and 2009 seeking to better understand what has been happening in Brazilian. Demand remains high so far in 2010.

We can conclude that, in its search for answers, the world slowly discovered that the most successful large scale project to replace fossil fuels with renewables in the world is really all that has been said about it, and promises to be much more in the future. There are a number of new areas that will generate additional growth in coming years, such as bioelectricity, bioplastics and the production of hydrocarbons, like "clean", sugarcane-based diesel and jet fuel. Additional, sharp efficiency and productivity gains in the production of ethanol are also on the horizon.

These findings have naturally contributed to fuel the interest of global companies, which now appear to be satisfied with what they have discovered about the industry and how it operates, as well as its extremely promising future. With some companies in the industry still recovering from the effects of last year's financial crisis, it became easier, in some cases, to wrap up business transactions. All of those elements combined explain why mergers and acquisitions, including those involving foreign investors, progressed at a faster pace than expected.

In mid-2007, foreign capital held a majority stake in 22 companies, or 7% of the entire sugarcane industry in Brazil. At that time, UNICA projected that the overall percentage under foreign control would grow to 12% by 2012, a forecast surpassed by the end of 2009, when 44 of a total of 430 mills, producing 14% of the approximately 590 million tons of cane crushed in the 2009/2010 harvest, were already controlled by foreign capital. When all the transactions announced since the beginning of 2010 are considered, UNICA has calculated that the percentage of Brazil's cane crush now under foreign control stands at 22%.

Clearly, the period of questioning the industry, its viability or sustainability, has been replaced by decision-making by major players ranging from oil to food, chemical and electrical companies. With Brazil's cane industry now "discovered" by the world, it will come as no surprise if additional transactions take place, in parallel with an essential consolidation process in an industry that is still too fragmented, with approximately 200 business groups in activity.

Even if additional mergers and acquisitions involve foreign capital, the industry tends to remain largely in Brazilian hands, unlike what can be observed in other sectors of the economy, including Brazil's agribusiness. On the other hand, it is essential not to lose sight of what is indeed important. The quality and commitment of capital will always be more important than its national origin. In that respect, it is vital to point out that the sugarcane industry has succeeded in attracting investors that are clearly committed to performance, the pursuit of innovation, efficiency and productivity gains, regardless of where the capital came from.

It should be emphasized that new participants in the industry have so far been successful at preserving important and positive traits, such as relations with cane suppliers and traditional landowners, while promoting and expanding the role of independent farmers for cane supply. The presence of solid, capitalized groups also adds stability to the commercialization of ethanol in the domestic market, by reducing the incidence of situations in which the product is dumped at low prices by companies that need to generate cash flow.

These are all vital positions for those wishing to be part of an industry whose importance to the country and the world is increasingly evident.

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