

South America Sugar cane

Companies vie to be first in the door for Peruvian ethanol

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Companies are forging ahead with plans to produce tariff-free sugar-cane ethanol in Peru, where yields are reportedly higher than Brazil, the world's largest producer.

Maple Energy and Stratos Renewables have confirmed that they have got in on the ground floor, but at least two other ventures — Grupo Romero and Casagrande — are reportedly investing in Peruvian ethanol. Neither Grupo Romero nor Casagrande could be reached for comment.

Peru is unlikely to make much of a dent in the world market, and investors will have a hard time finding contiguous land masses to plant significant amounts of sugar cane.

However, a law mandating a 7.8% blend of ethanol in gasoline will come into effect next year, pushing the production of fuel ethanol forward.

Sugar cane is not taxed in Peru, and the country benefits from not having a US tariff for ethanol imports, unlike Brazilian exports, which are taxed at a rate of \$0.54 per gallon.

Consultants Frost & Sullivan estimate that investments of



VENTURE: Stratos chairman Steven Magami, left, with Peru's agricultural minister, Ismael Benavides

\$250m were made in Peruvian ethanol during 2007. The chief strategy officer of Stratos Renewables, Sanjay Pai, says the company is investing \$330m of private capital in the industry.

"The number-one advantage is the very high activity of sugar

cane per hectare," Pai comments. Cane can be harvested all year, whereas Brazil, which produced about 5.8 billion gallons (22 billion litres) of ethanol last year, has a seven-month season.

"In Brazil, they think you need good soil to grow sugar cane, but

you don't. All you need is sun and water," Pai says. He estimates that Brazil's ethanol costs \$1.10 per gallon to produce, while Stratos' cost in Peru should be about \$0.75 per gallon or lower.

Pai previously helped co-found two ethanol plants in São Paulo with Comanche Clean Energy.

Stratos Renewables is readying land for planting, and hopes to have its first harvest in two years. It should have a 16-million-gallon-producing plant running by next year on cane bought on the open market. The overall goal is to produce 90 million gallons.

Maple Energy, a publicly traded oil and gas company, has more modest goals: it hopes to produce 30–35 million gallons of ethanol per year with its \$222m investment.

The company is eyeing the European market for ethanol exports, despite growing domestic demand, which is estimated to be 20–25 million gallons per

year as of 2010, although Grupo Romero is expected to dominate the domestic market.

Maple has acquired 10,700 hectares of land for production, of which 8,000 will be cleared for planting by the end of this year.

The main challenge in Peru is the difficulty in finding large tracts of land. "With sugar cane, you need all the land within a reasonable radius of your plant," Pai says. "If you're able to solve that issue, it's a great investment, but it's a significant hurdle."

Agrarian reform in the 1970s split up large land holdings, and sugar mills turned into co-operatives. Yields decreased because of inefficient operations, Pai says. Stratos has been purchasing smaller land holdings.

Stratos' site also has the benefit of being near rivers and having aquifers beneath the desert to supply water. Its location — just 60km from a port — will facilitate exports to the US and Asia.

The land earmarked by Maple is also located well for water. "Our land will be using drip irrigation in order to make efficient use of water. It's the first time in Peru that cane will be grown in this way," Inga says.

Maple's refinery will also produce 37 megawatts of energy derived from bagasse, 20 of which will power the plant and 17 of which will be sold to the national grid.

Stratos, however, is still looking for more space. "We are actively evaluating additional lands, some of which we have options on," Pai says.

The economic crisis "slowed" plans for a couple of months, but Pai says things are back on track: "I don't think we should have problems further down the road."

Frost & Sullivan says Grupo Romero plans to invest \$40m in the production of ethanol, and the Casagrande group has 15,000 hectares for production.

Stratos Renewables



VISION: A computer-generated view of the Stratos development

Stratos in Peru

\$350m

Funds required for the project

24,000

Size of the plant site in hectares

340m

Quantity of ethanol (in litres) Stratos plans to produce in Peru

Brazil Investment

Oil giant committed to put 'significant sums' into biofuels

CHRISTIANA SCIAUDONE

BP is reported to be planning to invest \$5bn–\$6bn in ethanol production over the next 10 years.

The UK-based oil major declined to confirm specifics about the investment plans, which were reported by Brazilian media corporation Canal Rural.

However, a spokeswoman from the company tells *Recharge*: "We remain committed to growing

our biofuels business in Brazil. As has been reported recently, we expect to invest significant sums over the next 10 years."

BP says it expects to expand significantly the business of producing ethanol from sugar cane in Brazil.

Last April, BP revealed it was making a \$1bn investment in Brazilian ethanol company Tropical BioEnergia, a joint venture that also involves Santelisa

Vale and Maeda, each of which owns 25% of the company.

However, as the Brazilian ethanol industry is now low on cash due to falling prices and the global economic downturn, several companies have expressed interest in acquiring a stake in Santelisa Vale.

Major groups Louis Dreyfus, Bunge Group and the BTG fund are front-runners for buying into the Brazilian ethanol

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BP

producer, according to economic sources. Tropical BioEnergia's

first refinery, with a capacity of 435 million litres, came on line in September. BP has plans for a second refinery, but declines to comment on a location. BP will produce a total of 940 million litres of ethanol per year if it goes ahead with a second facility.

"We have a clear strategy for biofuels development, and we believe the industry has a lot of potential for growth," the BP spokeswoman says.