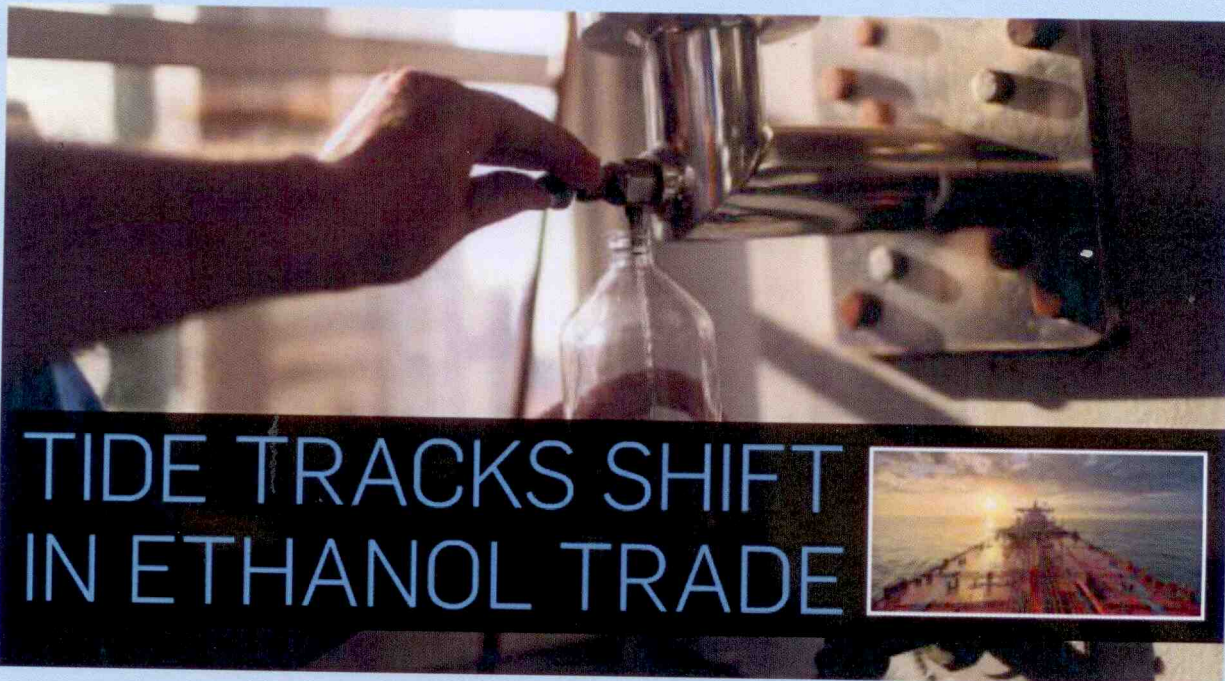


## BRAZIL

A worker tests the quality of ethanol samples at Louis Dreyfus Commodities' Biosev processing facility near Sertãozinho. Inset: view along the deck of a chemical tanker.

Photos: Bloomberg News and Tide Maritime



## TIDE TRACKS SHIFT IN ETHANOL TRADE

### THE NEW NICHE TRADING PATTERN THAT IS EMERGING WITH SURGING EXPORTS FROM BRAZIL TO THE US IS 'VERY GOOD FOR SHIPPING'.

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**CHANGING PATTERNS** in Brazil's ethanol trade could hold promise for chemical-tanker owners in the region, according to a local broker who closely monitors the niche sector.

While imports of corn-based ethanol from the US are forecast to drop dramatically after drought conditions across much of the producing nation, two categories of Brazilian ethanol exports to the US are projected to show significant increases, according to Gustavo Sa, partner in Leblon-based Tide Maritime.

"The trading pattern is very good for shipping, as owners can sometimes fix ethanol both legs," Sa said in a recent interview. "At the same time, Brazil is importing a lot of gasoline and gasoil. Therefore, some ships that discharge clean products in Brazil — mainly MRs [medium-range tankers] — can benefit from the backhaul voyage with ethanol."

Whether MR or other products tankers can take advantage of the backhaul will depend on whether they qualify for ethanol transport with an IMO-2 certification or have a nitrogen plant on board, Sa notes.

Chemical-tanker owners typically active in South America



Tide partner Gustavo Sa says some traders are "washing out" their long positions on the US import of ethanol.  
Photo: JOE BRADY

are most likely to benefit from the dynamic: Stolt-Nielsen, Odjell, Chembulk, Fairfield Tankers and Navig8 are among those on Tide's checklist.

The only falling numbers in the trade are the six-month projections from the US to Brazil (September through to March). They are expected to drop to 280,000 cbm from a real figure of 510,000 cbm from January through to August, Tide indicates.

Driving the trend is the poor growing conditions for US farmers. Some traders are "washing out" their long positions on the US import — that is, accepting a premium payment to settle the trade without physically receiving the cargo — because it is more profitable than executing the purchase option, Sa says.

#### US BECOMES PROFITABLE MARKET

Brazilian exports are another story. Some states in the US — California in particular — will accept only "green" ethanol such as that made from Brazilian sugar cane, shunning the home-grown corn product. The US thus has proven to be a profitable target market for Brazilian producers.

Brazil sends such cargoes in two ways: anhydrous (without water) shipments directly to the US, or hydrous shipments directed to Jamaica, where dehydration plants treat the ethanol and reship it to the US as the anhydrous variant.

It is the latter category that shows the greatest promise over the next six months, Sa says. Hydrous shipments via Jamaica are tipped to rise more than 250% to 460,000 cbm from 180,000 cbm. Direct anhydrous cargoes are expected to see a smaller rise, to 650,000 cbm from 570,000 cbm.

#### LOW DOMESTIC DEMAND AS STATE SUBSIDISES GASOLINE

Besides the US shortage, another factor driving the trend is the low profitability for ethanol within Brazil, Sa notes. The Brazilian government is subsidising gasoline prices domestically — keeping them artificially low compared to international levels — as a hedge against inflation. This makes it less attractive for drivers to turn to ethanol in their "flex fuel" vehicles. Ethanol is normally worthwhile when it is 70% of the gasoline price or lower, Sa notes.

Petrobras has acknowledged increased imports of gasoline and diesel as Brazilians ramp up their driving and domestic refineries struggle to keep pace. As TradeWinds has reported, this has led Petrobras to become increasingly active in fixing MR tankers on period charter, locking in today's low rates. But spot activity persists, making the ethanol backhauls an option for some.

When not immersed in ethanol movements, Sa and Tide are active with fixtures in broader markets like crude, clean products and chemicals. Tide is the only Rio de Janeiro broker to also have an office in Geneva. It will move to new offices within the Leblon neighborhood later this year, adding a broker there and in Geneva, Sa says.

The firm also attained its ISO 9001:2008 certification earlier this year.