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Brazil

Sugar

Sugar Semi-Annual Report

1999

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Report Highlights:
Brazilian 1999/2000 sugarcane crop unchanged at 300 mmt. MY 1999/2000 sugar production revised upward to 19.2 mmt, raw value, up 0.2 mmt from previous projection. Sugar exports for MY 1999/2000 revised upward to 9.7 mmt with steady strong exports to Russia, Middle East and East Asia. Relatively low international sugar prices during the last months did not pressure sugar export supply down, since the market has still been attractive for Brazilian millers who need to generate cash flow. Alcohol supply and demand supposedly reached a balance.

Includes PSD changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Sao Paulo, BR

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PS&D Tables

PSD Table						
Country	**Brazil**					
Commodity	**Sugar Cane for Centrifugal**				1000	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		05/1997		05/1998		05/1999
Area Planted	4400	4400	4600	4600	4700	4700
Area Harvested	4400	4400	4470	4470	4350	4450
Production	300000	300000	308000	308000	300000	300000
TOTAL SUPPLY	300000	300000	308000	308000	300000	300000
Utilization for Sugar	108000	108000	129000	129000	135000	135000
Utilization for Alcohol	192000	192000	179000	179000	165000	165000
TOTAL UTILIZATION	300000	300000	308000	308000	300000	300000

PSD Table						
Country	**Brazil**					
Commodity	**Centrifugal Sugar**				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		05/1997		05/1998		05/1999
Beginning Stocks	860	860	560	560	1210	1010
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	15700	15700	18300	18300	19000	19200
TOTAL Sugar Production	15700	15700	18300	18300	19000	19200
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	16560	16560	18860	18860	20210	20210
Raw Exports	4500	4500	5750	5900	6100	6600
Refined Exp.(Raw Val)	2700	2700	2800	2850	2900	3100
TOTAL EXPORTS	7200	7200	8550	8750	9000	9700
Human Dom. Consumption	8800	8800	9100	9100	9300	9300
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	8800	8800	9100	9100	9300	9300
Ending Stocks	560	560	1210	1010	1910	1210
TOTAL DISTRIBUTION	16560	16560	18860	18860	20210	20210

Executive Summary

Total Brazilian sugarcane production estimate for marketing year (MY) 1999/2000 (May-Apr) remains unchanged at 300 million metric tons (mmt). The harvest in the CS is in progress and is moving along well, while the harvest in the NNE has just begun. ATO/Sao Paulo estimate for total Brazilian sugar production has been revised upward to 19.2 mmt, raw value, up 0.9 mmt or a 5 percent increase compared to previous season. Major factors affecting higher expected sugar production include: (1) high alcohol stocks in the beginning of the crushing season creating an unstable environment towards alcohol production; (2) the steady international demand which has been absorbing Brazilian sugar at low prices; (3) the necessary cash flow obtained by millers through export contracts which offer pre-financing terms; (4) the recovery of domestic market sugar prices since August, but mainly in September, due to a shortage in domestic supply; and, (5) dry weather during the CS harvest which increased sugar extraction yields.

Post's estimate for MY 1999/2000 Brazilian sugar consumption remains unchanged at 9.3 mmt, raw value, up 0.2 mmt from previous MY, due to population growth and consumer shifts toward basic products due to a tight local economic situation. The MY 1998/99 Brazilian sugar export estimate has been adjusted upward to 8.75 mmt, raw value, up 0.2 mmt from previous figure, due to information provided by trade sources and the Brazilian Department of Foreign Trade (DECEX). ATO/Sao Paulo has revised upward the MY 1999/2000 Brazilian sugar export estimate to 9.7 mmt, raw value, up 0.95 mmt from previous MY, due to strong and steady exports to Russia, the Middle East and the East Asia regions.

Last August, the government of the state of Sao Paulo and several sectors related to the sugar-alcohol industry formulated the "Pact for Employment in the Sugar-alcohol Agribusiness" to promote the development of the industry. The joint effort aggregates sugar-alcohol millers, the automobile industry, fuel distributors, and the Employee Federation, in addition to the federal, state and municipal governments and is valid until 2005.

The problem related to high alcohol stocks (see BR9009) has come to a solution and does not seem to concern millers as it did in the first quarter of 1999. Several actions were taken by the sector and by the Brazilian Government to deal with the issue, including the creation of two companies to market alcohol in domestic and international markets and the purchase of hydrated alcohol by the Brazilian Government.

No forecast for the 2000/2001 sugarcane crop has yet been announced but it appears there will be a drop in sugarcane production compared to the current one due to lower crop renewal and below average crop management. Sugar analysts place the reduction between 10 and 15 percent in the Center-South, but it's still too early to project figures. As a result of the expected lower 2000/2001 sugarcane crop, Brazilian sugar exportable surplus is likely to drastically decrease next year. Cash flow shortages and lack of liquidity have represented the major problem for the sugar-alcohol sector and are likely to affect operations at least in the near future. Sugar-alcohol representatives advocate the necessity to create new mechanisms of credit to promote the sector.

Production

Total Brazilian sugarcane production estimate for marketing year (MY) 1999/2000 (May-Apr) remains unchanged at 300 million metric tons (mmt). ATO/Sao Paulo has revised the sugarcane for crushing breakdown between the two producing regions. The Center-South (CS) region should contribute 268 mmt, up 10 mmt from previous forecast, due to higher area for harvesting, while the remainder should come from the North-Northeast (NNE) region, a 10 mmt decrease compared to previous projection, due to weather related problems.

As opposed to what was previously expected, a significant amount of sugarcane is not likely to be left in the fields in the CS region (see BR9009). The harvest in the CS is in progress and is moving along well and, despite the fact that roughly half a dozen mills are not operating this crushing season, sugarcane availability is good due to lower crop renewal. The harvest in the NNE has just begun and the projected reduction in production is related to dry weather. Total sugarcane area harvested has been revised upward to 4.45 million hectares, up 100,000 hectares from previous projection.

The table below compares official sugarcane crush data published by the Brazilian Government's Ministry of Agriculture (MA) for 1997/98, 1998/99 and 1999/2000 crop years. Note that the official CS and NNE crop years are April-March and September-August, respectively. The figures show cumulative cane crushed through July for the 1999/2000 crop.

Brazilian Sugarcane Crushed for both Sugar and Ethanol Production (Metric Tons).			
Region/State	1997/98 1/	1998/99 1/	1999/00 2/
Center-South	248,310,213	268,910,976	125,161,069
Sao Paulo	180,414,788	198,884,741	93,901,834
Parana	24,588,147	24,286,598	8,855,709
Minas Gerais	11,921,549	13,139,661	7,077,506
Mato Grosso	9,788,427	10,306,270	5,440,418
Goias	8,208,018	8,529,500	3,585,175
Mato Grosso do Sul	5,952,034	6,590,160	3,027,379
Rio de Janeiro	4,926,063	5,199,583	2,417,133
Espirito Santo	2,465,728	1,941,970	855,915
Rio Grande do Sul	45,459	32,493	--

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Brazilian Sugarcane Crushed for both Sugar and Ethanol Production. (Metric Tons).			
Region/State	1997/98 1/	1998/99 1/	1999/00 2/
North-Northeast	53,863,202	46,297,354	1,296,846
Alagoas	23,698,079	18,561,119	--
Pernambuco	16,950,757	15,528,390	--
Paraiba	4,873,221	3,888,104	--
Rio Grande do Norte	2,645,204	2,807,772	--
Bahia	2,581,225	2,347,225	733,619
Maranhao	898,988	1,118,330	361,676
Sergipe	1,121,277	1,037,538	--
Ceara	325,613	367,684	79,386
Piaui	337,032	312,580	--
Para	247,045	307,650	122,165
Tocantins	184,761	20,962	--
Total	302,173,415	315,208,330	126,457,915
Source: Department of Alcohol and Sugar (DAA)/ Ministry of Agriculture (MA). 1/April to March, 2/ Cumulative production April to July 1999.			

The following tables show monthly sugarcane crush data for Sao Paulo and the CS region from the 1993/94 to 1999/2000 crops (Apr-Mar), as reported by the Sugar and Alcohol Millers Association of Sao Paulo State (UNICA). Note that the harvest season started earlier compared to previous crops and, according to post contacts, sugar and alcohol mills are likely to end operations by the end of October through mid-November. The lack of rainfall during the months of July and August contributed to the steady crushing pace and to reported higher extraction yields.

Sugarcane crushed in the state of Sao Paulo (1,000 metric tons).							
Month	93/94	94/95	95/96	96/97	97/98	98/99	99/00
April	0	0	121	1,802	3,500	3,307	8,668
May	14,209	16,840	10,256	18,783	19,578	19,944	27,113
June	22,982	24,158	24,551	27,086	22,407	30,943	27,242
July	26,053	27,444	26,596	28,912	30,198	30,121	30,382
August	25,105	26,942	27,401	28,529	30,450	27,395	14,711
September	20,584	24,554	25,474	22,648	26,662	27,977	
October	21,759	19,035	19,626	22,370	24,806	23,928	
November	11,327	8,670	14,108	14,815	17,143	25,383	
December	1,977	1,234	3,426	5,378	5,851	9,417	
January	0	236	539	103	914	899	
Cumulative	143,995	149,113	152,099	170,425	181,511	199,314	108,116

Source: Sugar and Alcohol Millers Association of Sao Paulo State (UNICA).
Note: August 1999 production updated until August 16.

Sugarcane crushed in Center-Southern Brazil (1,000 metric tons).							
Month	93/94	94/95	95/96	96/97	97/98	98/99	99/00
April	0	0	286	2,784	5,324	4,993	11,310
May	17,044	20,237	13,187	24,836	27,573	27,407	35,232
June	29,630	31,077	32,486	37,584	31,873	41,436	36,574
July	34,577	36,762	36,440	40,207	42,264	41,642	41,871
August	33,958	36,355	37,660	39,393	42,282	37,770	21,648
September	27,116	32,627	34,632	31,649	36,485	37,523	
October	26,536	25,112	25,869	29,418	33,567	32,927	
November	12,862	11,705	18,114	18,466	21,876	31,806	
December	2,366	2,047	4,911	7,062	7,530	12,621	
January	0	392	820	196	916	1,399	
Cumulative	184,088	196,315	204,405	231,595	249,692	269,523	146,636

Source: Sugar and Alcohol Millers Association of Sao Paulo State (UNICA).
Note: August 1999 production updated until August 16.

ATO/Sao Paulo estimates that 135 mmt of cane, approximately 45 percent of total sugarcane production, will be directed to sugar production in MY 1999/2000, up 6 mmt from previous season. The remainder is likely to go for alcohol production. These figures confirm the shift to increased sugarcane for sugar/alcohol ratio. Historically, about one third of the sugarcane production was used to produce sugar, whereas in the past two crops this percentage increased to 36 and 42 percent, respectively.

ATO/Sao Paulo estimate for total Brazilian sugar production has been revised upward to 19.2 mmt, raw value, up 0.9 mmt or a 5 percent increase compared to previous season and 0.2 mmt from previous projection. The CS region should contribute 17 mmt, raw value, whereas the remaining 2.2 mmt should come from the NNE. Major factors affecting higher expected sugar production include: (1) high alcohol stocks in the beginning of the crushing season creating an unstable environment towards alcohol production; (2) the steady international demand which has been absorbing Brazilian sugar at low prices; (3) the necessary cash flow obtained by millers through export contracts which offer pre-financing terms; (4) the recovery of domestic market sugar prices since August, but mainly in September, due to a shortage in domestic supply; and, (5) dry weather during the CS harvest which increased sugar extraction yields.

Sugarcane yields for MY 1999/2000 are estimated at 67.5 metric tons per hectare, a 2 percent drop compared to previous season, due to dry weather during the harvest season, lower than average cane renewal and below average crop management. According to post contacts, total reduced sugar (TRS) production for MY 1999/2000 is estimated to be 1.5 percent higher than the previous crop. The TRS/ton of sugarcane ratio is expected to be higher than the previous crop, due to dry weather during the harvest.

The following table shows official sugar production figures published by MA for their 1995/96 through 1999/2000 trade years (Apr-Mar).

Brazilian Sugar Production (Metric tons, tel quel).					
Region/State	1995/96 1/	1996/97 1/	1997/98 1/	1998/99 1/	1999/00 2/
Center-South	9,831,548	10,421,341	11,315,591	15,097,275	7,636,190
Sao Paulo	7,689,645	7,897,312	8,665,888	11,748,707	5,938,330
Parana	555,875	783,531	936,852	1,245,458	566,315
Minas Gerais	441,609	464,350	493,695	599,875	367,019
Rio de Janeiro	439,811	421,363	351,420	373,959	172,288
Goias	226,021	309,107	285,146	341,365	174,000
Mato Grosso	293,776	301,079	366,705	482,847	255,358
Mato Grosso do Sul	135,190	191,674	165,505	250,829	138,016
Espirito Santo	49,621	52,925	50,380	54,235	24,864

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Brazilian Sugar Production (Metric tons, tel quel).					
Region/State	1995/96 1/	1996/97 1/	1997/98 1/	1998/99 1/	1999/00 2/
North-Northeast	3,400,937	3,210,502	3,532,754	2,830,909	66,282
Alagoas	1,537,315	1,524,832	1,779,166	1,384,844	--
Pernambuco	1,427,190	1,227,364	1,233,317	1,025,830	--
Bahia	134,876	138,010	151,322	144,596	62,177
Rio Grande do Norte	126,317	128,420	155,035	127,945	--
Paraiba	45,567	79,341	105,395	66,484	--
Sergipe	36,058	60,493	73,384	46,001	--
Maranhao	63,680	25,337	8,599	14,041	--
Ceara	29,935	23,080	21,801	12,801	4,105
Para		3,625	4,735	8,367	--
Total Brazil	13,232,485	13,631,843	14,848,345	17,928,184	7,702,472

Source: Department of Alcohol and Sugar (DAA)/Ministry of Agriculture (MA).
1/ April to March; 2/ Cumulative production April to July 1999.

The following are monthly data on sugar production in the state of Sao Paulo and in the CS region from 1993/94 through 1999/2000 (Apr-Mar), as reported by UNICA.

Sugar production in the state of Sao Paulo (Metric tons, tel quel, Apr/Mar).							
Month	93/94	94/95	95/96	96/97	97/98	98/99	99/00
April	0	0	4,652	40,095	99,765	138,645	406,791
May	512,692	584,896	368,050	715,888	799,583	1,003,522	1,606,628
June	940,279	968,094	1,064,378	1,170,517	910,503	1,658,469	1,766,064
July	1,100,555	1,148,986	1,168,455	1,457,325	1,410,451	1,876,807	2,076,851
August	1,120,892	1,240,196	1,377,367	1,496,911	1,548,913	1,664,943	1,062,738
September	716,906	1,225,811	1,354,158	1,124,382	1,517,579	1,875,937	
October	721,087	997,572	963,816	1,079,211	1,353,326	1,465,678	
November	356,763	393,589	661,329	593,717	769,781	1,555,440	
December	67,815	61,738	199,964	204,022	236,659	430,622	
January	(16)	20,898	13,878	1,639	(17,840)	14,216	
Cumulative	5,536,974	6,641,779	7,176,047	7,883,707	8,628,720	11,684,279	6,919,072

Source: Sugar and Alcohol Millers Association of Sao Paulo State (UNICA).
Note: August 1999 production updated until August 16.

Sugar production in Center-Southern Brazil (Metric tons, tel quel, Apr/Mar).							
Month	93/94	94/95	95/96	96/97	97/98	98/99	99/00
April	0	0	7,634	57,508	135,655	192,555	544,942
May	590,236	676,107	452,172	877,101	1,088,324	1,318,881	2,032,230
June	1,204,855	1,224,565	1,362,320	1,568,797	1,229,731	2,169,685	2,270,956
July	1,390,243	1,480,120	1,554,100	1,977,254	1,884,058	2,481,906	2,732,482
August	1,492,597	1,634,394	1,813,968	2,016,019	2,074,203	2,200,853	1,406,329
September	936,197	1,560,880	1,772,199	1,516,568	1,982,392	2,359,148	
October	934,675	1,260,596	1,220,196	1,379,280	1,708,634	1,884,441	
November	385,135	506,351	801,404	775,991	912,213	1,859,532	
December	73,106	83,958	255,630	254,399	279,590	559,149	
January	1,409	24,109	7,785	7,809	(16,543)	25,719	
Cumulative	7,008,453	8,451,081	9,247,409	10,430,726	11,278,257	15,051,869	8,986,939
Source: Sugar and Alcohol Millers Association of Sao Paulo State (UNICA). Note: August 1999 production updated until August 16.							

Consumption

Post's estimate for MY 1999/2000 Brazilian sugar consumption remains unchanged at 9.3 mmt, raw value, up 0.2 mmt from previous MY, due to population growth and consumer shifts toward basic products due to a tight local economic situation.

Trade

The MY 1998/99 Brazilian sugar export estimate has been adjusted upward to 8.75 mmt, raw value, up 0.2 mmt from previous figure, due to information provided by trade sources and the Brazilian Department of Foreign Trade (DECEX). ATO/Sao Paulo has revised upward the MY 1999/2000 Brazilian sugar export estimate to 9.7 mmt, raw value, an 8 percent increase compared to previous estimate and up 0.95 mmt from previous MY, due to strong and steady exports to Russia, the Middle East and the East Asia regions. The high import duty applied to sugar imports to Russia as of August 1, did not block Brazilian shipments to that country.

The following tables show Brazilian sugar exports by destination for MY 1998/99 (May-Apr) and a comparison between MY 1999/2000 and 1998/99 for the May to July period, as reported by DECEX.

Brazilian Sugar Exports by Country of Destination.
Sugar (NCM 1701.11.00, Metric Ton, Tel Quel, 1,000 US$ FOB)

	MY 1998/99 1/		MY 1998/99 2/		MY 1999/2000 2/	
Country	Quantity	Value	Quantity	Value	Quantity	Value
Russia	1,997,836	366,398	543,050	114,992	1,135,517	144,023
UAE	490,658	99,541	100,000	21,621	130,882	16,128
Indonesia	367,598	74,721	--	--	95,250	13,563
Egypt	346,897	68,740	83,000	17,312	162,330	19,718
Morocco	300,577	57,476	12,736	2,784	--	--
Iran	180,900	34,461	54,200	10,278	88,369	11,090
United States	169,544	72,533	93,714	40,437	78,328	33,313
Saudi Arabia	152,000	32,285	72,000	15,235	81,500	10,147
Canada	133,406	27,332	18,750	4,575	178,208	22,544
Romania	106,020	21,620	52,000	11,214	60,280	7,861
Malaysia	89,388	18,101	14,000	3,627	83,000	11,777
Others	680,227	145,129	161,841	35,696	286,951	40,418
Total	5,015,050	1,018,337	1,205,291	277,771	2,380,614	330,583

Source: Brazilian Department of Foreign Trade (DECEX)
Note: (1) Numbers may not add due to rounding; (2) "0" means less than 0.5 tons and "--" means no exports.
1/ May to April; 2/ May to July.

Brazilian Sugar Exports by Country of Destination. Sugar, Others (NCM 1701.99.00, Metric Ton, Tel Quel, 1,000 US$ FOB)						
	MY 1998/99 1/		MY 1998/99 2/		MY 1999/2000 2/	
Country	Quantity	Value	Quantity	Value	Quantity	Value
Nigeria	715,086	165,753	249,350	61,147	204,050	34,332
Egypt	592,455	126,071	89,500	21,312	81,770	16,005
Jordan	333,550	76,073	71,750	17,732	7,300	1,194
Indonesia	253,490	53,521	--	--	28,750	3,346
Sri Lanka	228,900	46,760	27,750	6,281	57,250	9,092
Russia	187,000	33,906	24,000	5,416	35,500	4,788
Yemen	167,450	35,143	14,000	3,191	37,100	5,821
Ghana	163,350	36,743	45,000	10,440	40,000	6,775
Malaysia	119,500	21,335	--	--	--	--
Somalia	105,750	22,506	14,000	3,269	22,780	3,521
Iraq	78,878	18,554	13,125	3,006	39,250	8,170
India	77,750	17,309	42,300	9,514	139,820	23,028
Iran	76,100	14,542	--	--	99,032	17,980
Others	736,535	161,287	143,727	33,693	376,057	66,249
Total	3,835,794	829,502	734,502	175,000	1,168,658	200,300
Source: Brazilian Department of Foreign Trade (DECEX) Note: (1) Numbers may not add due to rounding; (2) "0" means less than 0.5 tons and "--" means no exports. 1/ May to April; 2/ May to July.						

Brazilian Sugar Exports by Country of Destination. Sugar, Aromatized (NCM 1701.91.00, Metric Ton, Tel Quel, 1,000 US$ FOB)						
	MY 1998/99 1/		MY 1998/99 2/		MY 1999/2000 2/	
Country	Quantity	Value	Quantity	Value	Quantity	Value
Paraguay	201	47	4	6	5	5
Chile	1	1	1	1	0	0
Argentina	0	1	--	--	--	--
United States	0	0	--	--	--	--
France	--	--	--	--	0	0
Bolivia	--	--	--	--	4	2
Total	202	49	4	6	9	7
Source: Brazilian Department of Foreign Trade (DECEX) Note: (1) Numbers may not add due to rounding; (2) "0" means less than 0.5 tons and "--" means no exports. 1/ May to April; 2/ May to July.						

Stocks

ATO/Sao Paulo has adjusted downward sugar ending stocks for MY 1998/99 to 1.01 mmt, raw value due to higher than projected exports. The MY 1999/2000 ending stocks are projected at 1.21 mmt, raw value, down 0.7 mmt from previous projection, due to higher than expected exports.

Policy

Last July, the Department of Sugar and Alcohol (DAA) was transferred from the Ministry of Development, Industry and Commerce to the Ministry of Agriculture (MA). The coordination of the Alcohol Interministerial Committee (CIMA) was also transferred to MA. The increase of the current 76-24 gasoline/anhydrous alcohol blend to the proposed 74-26 blend and the addition of 3 percent of anhydrous alcohol to diesel are in stand by. Post contacts report that these measures are likely not to be effective for technical reasons.

Last August, the Government of the state of Sao Paulo and several sectors related to the sugar-alcohol industry formulated the "Pact for Employment in the Sugar-alcohol Agribusiness" to promote the development of the industry. The joint effort aggregates sugar-alcohol millers, the automobile industry, fuel distributors, and the Employee Federation, in addition to the federal, state and municipal governments and is valid until 2005. Each sector has committed itself to develop activities in order to regain the credibility as well as strength the industry. Among the commitments set by the parties, sugar-alcohol millers should maintain jobs for workers and guarantee sugar and alcohol supply to the market. Federal, state and municipal governments will be responsible for providing some taxes exemption for alcohol powered cars. The automobile industry will commit itself to continue the manufacture and technological development of alcohol powered cars, while fuel distributors will guarantee the infrastructure to supply the domestic market. The setting of the pact is politically pertinent because it creates and formalizes the interdependence among different but related sectors, and it legitimizes the industry. However, future actions taken by each of the involved participants will predominantly be driven by market forces.

Alcohol Supply and Demand

The problem related to high alcohol stocks (see BR9009) has come to a solution and does not seem to concern millers as it did in the first quarter of 1999. Several actions were taken by the sector and by the Brazilian Government to deal with the issue. Last February, Brazilian alcohol producers founded "Brasil Alcool S.A.", an enterprise focused on managing the excessive alcohol supply through stocking some of the surplus. The company has stocked 950 million liters of alcohol (295 and 655 million of anhydrous and hydrated alcohol, respectively) to be sold in the international market. Last May, alcohol millers founded the Brazilian Alcohol Exchange ("Bolsa Brasileira de Alcool" - BBA), an enterprise focused on centralizing the domestic alcohol market.

In addition, the Brazilian Government has purchased 402.6 million liters of hydrated alcohol during the May-August period in order to maintain operational and strategic stocks (Note that the Brazilian Government had already purchased 450 million litters of hydrated alcohol from the CS region between July 1998 and February 1999, and 134.4 million liters of hydrated alcohol from the NNE in January 1998 and January/February 1999).

Alcohol production is expected to decrease for MY 1999/2000 and the alcohol surplus is likely to be absorbed before the next crop. Post contacts report that it might be even necessary to use part of the Government's stocks or part of "Brasil Alcool S.A."' stocks.

As reported by MA/DAA, cumulative alcohol production for 1998/99 (Apr-Mar) is placed at 13.93 billion liters (blts), a 10 percent decrease compared to 1997/98 (15.42 blts). Total anhydrous alcohol production contributed 5.69 blts, or approximately the same volume produced during 1997/98, while hydrated alcohol production represented the remaining 8.24 blts, a 15 percent drop compared to previous season, due to lower demand for this type of fuel. MA/DAA reports cumulative alcohol production for MY 1999/2000 for the April- July period at 5.26 blts -- 2.39 and 2.87 blts of anhydrous and hydrated alcohol, respectively.

Alcohol prices have already recovered since the creation of the "Brazil Alcool S.A." and the Brazilian Alcohol Exchange (BBA). The centralization of the sales channels to market alcohol in domestic and international markets has empowered the sector, thus reflecting in better alcohol prices. Hydrated alcohol prices have been negotiated at R$ 0.27-0.28 per liter, as opposed to R$ 0.17 per liter in the beginning of the crushing season. Sugar-alcohol analysts report that hydrated alcohol price is likely to reach R$ 0.34 per liter. Anhydrous alcohol have been marketed at R$ 0.34 per liter.

The 2000/2001 Crop

No forecast for the 2000/2001 sugarcane crop has yet been announced but it appears that there will be a drop in sugarcane, due to lower crop renewal and below average crop management. Sugar analysts place the reduction between 5 and 15 percent in the Center-South, but it is still too early to project figures.

As a result of the expected lower 2000/2001 sugarcane crop, Brazilian sugar exportable surplus is likely to drastically decrease next year. Trade sources report that there could be a reduction in exportable sugar between 3 to 4.5 million tons, which will push international prices up. In addition, the balance between alcohol supply and demand has been reached, thus alcohol production is not likely to decrease. Indeed, alcohol production might even be stimulated if the measures to increase demand for alcohol powered cars -- tax exemptions, green fleet and other local measures -- show positive results. Thus, continuation of the shift from alcohol to sugar production is unlikely.

Alcohol prices have already improved since the creation of the "Brazil Alcool S.A." and the Brazilian Alcohol Exchange - BBA (refer to Alcohol Supply and Demand Section). Sugar prices in the domestic market have also risen somewhat. Cumulative increase for the Crystal Sugar Index released by the College of Agriculture "Luiz de Queiroz" (ESALQ) for August 1999 shows a 5.22 percent increase. The Crystal Sugar Index tracks crystal sugar prices in the domestic spot market. By the end of the first week of September, sugar prices in the domestic market had a sharp increase (almost 18 percent) compared to the prices by the end of August, due to the shortage of sugar in the market, and since the bulk of sugar production has been diverted to exports.

Cash flow shortages and lack of liquidity have represented the major problem for the sugar-alcohol sector and are likely to affect operations at least in the near future. Currently, credit lines available to finance millers operations are through pre-payment contracts ("Adiantamento de Contrato de Credito" - ACC) for export contracts, thus stimulating sugar exports even at relatively low international prices. Sugar-alcohol representatives advocate the necessity to create new mechanisms of credit to promote the sector.

Exchange Rate

Exchange Rate (R$/USD$1.00 - official rate, last day of period)					
Month	1995	1996	1997	1998	1999
January	0.84	0.98	1.05	1.12	1.92
February	0.85	0.98	1.05	1.13	2.03
March	0.90	0.99	1.06	1.14	1.77
April	0.91	0.99	1.06	1.14	1.66
May	0.90	1.00	1.07	1.15	1.72
June	0.91	1.00	1.08	1.16	1.77
July	0.94	1.01	1.08	1.16	1.79
August	0.95	1.02	1.09	1.18	1.81
September	0.95	1.02	1.10	1.19	1.92
October	0.96	1.03	1.10	1.19	--
November	0.97	1.03	1.11	1.20	--
December	0.99	1.04	1.12	1.21	--