United States and Brazil: The New Ethanol Alliance

By Raúl Zibechi | March 7, 2007

George W. Bush's trip to Latin America this month is the most ambitious attempt to reposition the United States in the region since the Free Trade Agreement of the Americas died in Mar del Plata in November of 2005. The trip, which includes Brazil, Uruguay, Mexico, Guatemala, and Colombia has a dual purpose: to counteract the growing influence of Venezuelan President Hugo Chávez in the region and to form a strategic alliance with Brazil for the production of ethanol. Although it may not appear on the surface, the two objectives are profoundly related.

"We have 80 million hectares in the Amazon that are going to be converted into the Saudí Arabuia of biodiesel," affirmed the Brazilian engineer Expedito Parente to the newspaper *O Globo*. Parente knows what he's talking about—he is the owner of the first patent registered in the world for the industrial production of biodiesel. In 1977, when he was a professor at the University of Ceará, he conceived of his project based on the use of oleaginosas such as soybeans and the mamona plant.

Today Brazil is the number-one producer of ethanol in the world, alongside the United States, and the two nations are poised to consolidate an alliance that will assure Brazil's position as regional leader and global power. In some ways, Bush's visit—preceded by those of Under-Secretary of State Nicholas Burns, and head of Western Hemisphere Affairs Thomas Shannon—represents a major recognition of Brazil's clout in the region.

The cost of the alliance can be measured in terms of its environmental and social impact. It assumes the destruction of the Amazon and the ruin of millions of small farmers.

But it is also a call to re-route North-South relations in the Americas. The second objective of Bush's tour March 8-14 relates to the need to control the spreading influence of Hugo Chávez. Chávez already has strong allies in Bolivian President Evo Morales and the Ecuadorian Rafael Correa. On what is his most important tour of the region in the past six years, Bush will also visit two small countries: Guatemala, where September elections could bring to power the indigenous leader Rigoberta Menchú, and Uruguay, a country that has shown interest in negotiating a bilateral trade agreement with the United States. In Colombia, with his friend Alvaro Uribe, Bush will seek to strengthen Plan Colombia given Correa's recent announcement that Ecuador will not renew the agreement to allow the U.S. military base in Manta—a key piece of the Pentagon's strategy in the region.

Both objectives converge on one point: to use Brazil to consolidate a strategic alliance that seeks to isolate Venezuela and the countries that follow its policies of Latin American unity as a counterbalance to U.S. hegemony. This appears to be, for the Bush administration, the best way of gaining a new foothold in the region.

In Search of Energy Autonomy

When Nicholas Burns visited Brazil in early February, he gave an interview to the newspaper *O Estado de São Paulo* that reveals Washington's plans for the region. "We are very dependent on oil. So we have to develop alternative fuels, we have to decrease our gasoline consumption. We produce corn ethanol because we have large cornfields. You (Brazil) produce ethanol from sugarcane. We are both world leaders. We control more than 70% of the world market. We believe that this is a connection with Brazil, it is an area in which we can grow together and we can lead the development of a world market with very positive consequences for the environment and for the economy. Biofuels will become the biggest and most positive point of connection between Brazil and the United States."[1]

Burns added that Brazil can play a major role in stimulating ethanol production in Central America and the Caribbean, where sugarcane plantations cover vast areas in private sector partnerships. He was very clear in pointing out that the agreement with Brazil on the development of biofuels will contribute to decreasing the dependency of U.S. imports from Venezuela and Iran. "We don't want to be dependent on those countries," Burns concluded.

The same day, the newspaper interviewed Brazilian Foreign Minister Celso Amorim, who agreed with Burns: "To resuscitate the FTAA would require too great an effort. I find it much better to think in terms of bilateral associations. Ethanol, for example, does not depend at all on other countries."[2]

Obviously the two governments are thinking along the same lines, but it is important to clarify what each has to gain.

Jeb Bush, who left the Florida governorship last January, now directs the Inter-American Ethanol Commission, "an organization through which Washington seeks to diversify its relations with Latin America," according to an article from the ANSA news agency dated Feb. 23.

The commission was born out of a high-level U.S.-Brazil business alliance. On Dec. 18, still-Governor Jeb Bush, president of the Agri-Business Council of São Paulo and former Brazilian Minister of Agriculture Roberto Rodrigues, and president of the Inter-American Development Bank Alberto Moreno announced the formation of the commission "that has as its mission to promote the use of ethanol in gasoline mixtures throughout the Americas."[3]

A month later in his Jan. 22 State of the Union speech, President Bush proposed the promotion of a law to mandate use of a gasoline mixture of 20% ethanol over the next ten years. The objective is to reduce the vulnerability of the country to actions from hostile states.

However, this entails an increase of 800% in the consumption of ethanol by 2017. Even if corn production in the United States grew 30% a year, it could not satisfy the demand for biofuels while at the same time providing for food demand. Thus the need to seek strategic partners.

On Jan. 26, in a speech before the World Economic Forum in Davos, Brazilian President Luiz Inacio Lula da Silva proposed that the United States participate with financing and technology in the installation of ethanol plants in nations with emerging economies. In this way it could obtain "more economical biofuels and furthermore promote the integration of the world economy."[4]

The interests of both countries seem to converge, although in reality the interests are those of the main business groups of the two most important countries in the hemisphere. In effect, the objective of the commission presided over by Jeb Bush is to be "the nexus between business leaders of the United States and Brazil to develop the market for biofuels made from sugarcane and corn."

Accompanying Bush on his Latin American tour will be Gregory Manuel, International Energy Coordinator in the cabinet of Secretary of State Condoleezza Rice. The agenda for Bush and company includes meetings with the powerful Federation of Industries of São Paulo (FIESP) and the association of sugarcane producers who produce for the biofuel industry.

On the table will be the negotiation of a long-term strategic agreement, for Brazil to supply the United States with ethanol in the next decades so it can carry out "a declaration of energy independence" according to Washington's plans. From the point of view of the White House, three objectives come into play: to reduce oil dependency, to open up investment in Brazil and the continent in a growing sector, and to restore the U.S.'s political power in the region.

The idea is to modify the energy matrix without having to rely on the massive consumption of corn ethanol which could cause a run on the price of the grain. By using Brazilian ethanol that is 25% cheaper than the U.S. kind, the United States saves money, avoids a corn shortage or major price fluctuation, and in passing achieves more energy autonomy. But for the project to proceed as planned, land dedicated to ethanol production must be expanded considerably. That is one of the reasons for associating with Brazil, since that country has the whole Amazon region at its disposition. Moreover, the Untied States proposes expanding production in other countries of the region, with particular emphasis on the Caribbean and Central America.

As the Mercosur News Agency has pointed out, the U.S. government wants to align the entire region with its plan “to supply biofuels, or raw materials” and therefore seeks to “assure the price of this alternative source.”[5]

The choice of Brazil and Latin America as supply sources for ethanol has several advantages. A report of the Inter-American Development Bank claims that Brazilian ethanol is competitive if the price of oil per barrel is over US$40. The oil price must be over US$60 a barrel for U.S. ethanol to be competitive and US$80 in the case of European ethanol.[6] Brazil is five times more efficient converting sugarcane into ethanol than U.S. companies that use corn as the prime material.

While biofuels account for just 1% of world fuel consumption for transportation and the substitution of oil-based fuels is only 1.8% in the United States, in Brazil it reaches 20%. The IDB report cited above establishes that Latin America is one of the regions with the most potential to offer biofuels given its climatic advantages combined with low population density.

A large part of Brazil’s advantages derive from the climate and the availability of land, something that the IDB considers “Brazil’s exceptionalism.” The developed countries do not have enough land to cover demand for crops to make ethanol. With barely 1.5% of its land sown, Brazil could entirely replace gasoline with ethanol. The United States on the other hand, would have to convert half of its total corn production to ethanol in order to implement a mixture of 10% ethanol to gasoline. That would mean dedicating 15% of its agricultural land. To meet the 20% benchmark Bush set in his State of the Union address, the nation has to look South.

Good Business

Biofuels also offer large profits and have whetted the appetite of investors. To meet Bush’s goal of reducing gasoline consumption by 20%, the United States would have to go from its current level of production of 20,400 million liters of corn ethanol, to 132,400 million is just 10 years. This means expanding the area cultivated in corn, soybeans, and sugarcane, investing in research to increase productivity, creating genetically modified grains for ethanol production, and building infrastructure to commercialize including alcohol pipelines with the aim of creating a market in energy commodities.

To meet these objectives, Brazil has to go from the four billion gallons of ethanol it currently exports to 35 billion gallons in 2017. It would have to build 77 ethanol plants before 2012—some experts have calculated the number needed at closer to 100—with an investment of US$2.5 billion. Much of the capital would come from the United States. “Until last year, 3.4% of the sector was denationalized. In ten years half will no longer be Brazilian,” predicts Maurilio Biagi. Just last year Biagi sold one of the country’s largest plants, Cevasa, to the agribusiness multinational company Cargill.[7]

Brazilian business also wins in the deal. The Brazilian business sector is interested most of all in expanding the use of biofuels in a region in which it plays a decisive role. To the degree in which the makers of ethanol have difficulties entering the U.S. market—they currently have to pay a 54-cent tax per gallon—they seek to expand sales in the region following the example of the big Brazilian companies like Petrobras, Odebrecht, and Camargo Correa.

In the coming years, Brazilian businessmen and women will promote the extensive planting of ethanol crops in neighboring countries, and the construction of plants, pipelines, and transportation networks financed in large part by the Brazilian National Bank of Economic and Social Development (BNDES).

Brazilian companies have an additional advantage in the ethanol business. A full 82% of cars made in Brazil run on the flex system—a system that burns gas, ethanol, or a combination of both. Brazil has already achieved the benchmark set out by Bush for 2017 since its legislation mandates the use of 20% in gasoline. After three decades investing in biofuels, to the point of having positioned itself in the global vanguard, Brazil’s businesses are ready to take advantage of their head start.

Many reports indicate that in the next decade important investments will be made in biofuels. In its recent report on the issue, the IDB lists the reasons for the sudden interest among investors: “Brazil, with the accumulated experience of over 20 years is the only country that has lowered the costs to a competitive level. One of the most important factors has been the development of agricultural technology in sugarcane production. Brazil’s success has roused the interest of other countries in the region and a created a strong demand on the Bank.”[8]

Part of these investments will come from the large multinational corporations, since companies that produce transgenics—Syngenta, Monsanto, Dupont, Dow, Bayer, BASF—have investments in crops designed for the production of biofuels such as ethanol and biodiesel. [9] Some of these corporations are preparing to sell genetically modified seed to increase productivity of crops sown for ethanol production.

Regional Domination

Political objectives also come into play in Washington's move to cement the ethanol alliance. A long-term alliance that projects Brazil as a global player, which is the objective of the Lula government, would allow the United States to recuperate the hegemonic role that it has been losing over the past years.

Washington cannot consolidate its hegemony only through military measures like Plan Colombia. It also needs to win over groups of leaders like those in the Lula government and important and dynamic business groups like those that have flourished in Brazil and especially in São Paulo.

Jeb Bush was very clear about this, stating that biofuels can strengthen the relationship between the United States and Latin America "serving as a catalyst to remove barriers to free trade within the region." The executive director of the Inter-American Ethanol Commission, Brian Dean, went even further, stating that ethanol can accomplish what the FTAA failed to do.[10]

The strategic accord also foresees the formation of what *O Estado de São Paulo* calls the "ethanol OPEC" or the "Green OPEC"—an allusion to the Organization of Petroleum Exporting Countries. This explains the reactions of other Latin American countries.

On Feb. 21 presidents Néstor Kirchner and Hugo Chávez met in Venezuela. They signed a series of economic cooperation pacts, among them the creation of the Bank of the South. For now Brazil will not participate and Paraguay and Uruguay are expected to join later along with Bolivia and Chile. The two countries also agreed to begin joint drilling of a series of wells between the state-owned Argentine oil company Enarsa and the Venezuelan PDVSA that are programmed to begin production in 2009. The project is expected to provide Argentina with 300,000 barrels a day of oil as a way out of its energy crisis.

Under the plan, Argentina supports Venezuela by installing agro-industrial plants and Venezuela bought US$800 million in Argentine bonds—it had already bought another US$800 million previously—to place on the international market. The cooperation in economic issues is crucial for both partners.

Argentina wants to assure fuel supplies since in a few years it could switch from being a net exporter to a net importer. Venezuela needs Argentine help to develop its agricultural technology for the generation of an agro-industrial base that it lacks. In short, they are complementary—one needs the other's petroleum, the other needs food.

But the political pacts are as important as the economic ones. Just when Brazil is poised to enter into a strategic alliance with the United States, both presidents indicated their disgruntlement with the path followed by Lula.

"Some have said that Lula or I have to stop Chávez. They are wrong. Absolute error—we are building with our brother, the Bolivarian president of this republic, respectful of internal situations, and we say that when our peoples express themselves they should be heard," said Kirchner.[11]

Chávez responded saying that the empire never tires "of sowing animosity among us, the presidents of Latin America." In what seemed to be an indirect reference to other presidents, he said, "There in Buenos Aires some people say that Argentina's relationship with Chávez is a mistake. I'm sure these are the same ones who sold out to the empire." In this context, the two presidents heralded their accords as "geopolitically strategic businesses."

Now both presidents went a step further. On March 9, when Bush visits Tabaré Vázquez in the presidential residence near the Uruguayan city of Colonia, the two presidents will hold a meeting of heads-of-state with a clearly anti-U.S. message just 50 kilometers away, across the river in Buenos Aires.

Clearly, these events indicate a growing contradiction between governments that before appeared to be more or less on the same wavelength. The political-business alliance between the United States and Brazil around ethanol is a blow against regional integration based on oil and gas that for several years has been loosely constructed between Venezuela, Argentina, Bolivia, and recently Ecuador. For a while, many thought that Lula's Brazil shared the same emphasis. But now that the ambitious strategic alliance with the United States has been unveiled, all seems to indicate that Lula opted for the large São Paulo industrialists.

In line with this choice, Lula told Bolivian President Evo Morales in mid-February, after signing a hard-wrought agreement for Brazil to begin to pay a more just price for Bolivian gas, "You can be sure, compañero Evo, that the world will come around in the next 15 years to biofuels."[12]

In other words, he was saying that all the countries of the region should join in the Brazil-U.S. alliance and admit Brazilian superiority in ethanol production. The Latin American institutional "left"—represented mainly by the Workers Party in Brazil and the Broad Front in Uruguay—is lending a hand to the United States in a delicate moment for world hegemony. Social movements maintain that the production of biofuels "is sustained by the same principles that caused the oppression of Latin American peoples" as Brazil's Landless Movement declared in early March, and that the Brazil-U.S. partnership for ethanol aims to weaken the regional integration promoted by the oil and gas producing countries, as Via Campesina has pointed out.

Once again, in Uruguay and Brazil, grassroots movements and progressive governments find themselves in opposite trenches. The irony is that Washington's "backyard," which historically enabled the country to reach world power status, could now be what saves it from the energy crisis and global decline. And this thanks to the providential hand of progressive governments—at the cost of the well-being of significant portions of their own populations.

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End Notes

1 *O Estado de São Paulo*, February 11, 2007.

2 Idem.

3 Alberto Albanese, ob. cit.

4 Idem.

5 Pablo Ramos, *Mercosur News Agency*.

6 Inter-American Development Bank, ob. cit.

7 *O Estado de São Paulo*, agricultural suplement, February 21, 2007.

8 Italics by the author.

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