Ethanol

Fuel for friendship

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America and its neighbours discover a common interest

AS A pilot and the owner of an air-taxi service in Brazil's grain belt, Joel Rosado spends a lot of time thinking about fuel. So when the price of oil began rising a few years back, he ordered a new cropduster designed to run on ethanol instead of petrol. He found that the fuel bill for the new plane was a third that of each of his other nine, and so has decided to convert those to run on ethanol too. Brazilian drivers learned a similar lesson long ago: 77% of new cars can run on ethanol, which accounts for half of all transport fuel consumed in the country. “At this rate,” says Antonio Galvão, another pilot, who owns four ethanol-fuelled planes, “the gasoline engine is heading for extinction.”

George Bush has also spent a lot of time thinking about fuel recently. Earlier this year he called for America to cut its projected petrol consumption by 20% over the next decade, largely by using more ethanol and other biofuels. Mr Bush implied that most of the 35 billion gallons (130 billion litres) required would be home-grown. At any rate, he has not tried to remove the 54-cent tariff America levies on most imported ethanol in deference to its powerful farming lobby. Nonetheless, on March 8th Mr Bush and Luiz Inácio Lula da Silva, Brazil's president, are expected to strike a deal intended to boost biofuels. “Ethanol diplomacy” will be a focus of Mr Bush's Latin American tour.

Firms around the world are trying to make biofuel out of everything from trees to cooking oil. To make ethanol from corn or wheat, as Americans and Europeans tend to do, distillers must first convert the starch in those crops into sugars. But Brazilian distillers dispense with this expensive step, as they use sugarcane as a feedstock. So Brazil can produce ethanol for 22 cents a litre, compared with 30 cents a litre for corn-based ethanol, according to Icone, a Brazilian think-tank. That makes it cheaper than petrol, and therefore lucrative for farmers without subsidies.

For the past three decades, sugarcane plantations have been spreading north and west across Brazil's hinterlands, replacing coffee, citrus and pasture. Investors are planning to spend some $12.2 billion on 77 new ethanol plants over the next five years, as well as $2.4 billion to expand existing ones. By 2012, a total of 412 distilleries will be churning out 9.5 billion gallons of ethanol. Ultimately, Brazil would like to see ethanol traded as freely and widely as oil. In that case, it could potentially boost exports from the current 3 billion litres to as much as 200 billion litres by 2025, according to a study commissioned by the Ministry of Science and Technology. That would be enough to replace one-tenth of the world's petrol consumption.

Brazil is not the only country in Latin America that sees great promise in ethanol. Colombia now has five distilleries amid the sugarcane fields of the Cauca Valley, which produce 360m litres a year. Two more are under construction elsewhere. These producers are guaranteed a market, since regulations oblige fuel merchants to mix ethanol into petrol. By 2009 the required blend will be 10% ethanol and will gradually rise to 25% thereafter. Costa Rica has a similar policy, and Panama is contemplating one.

Indeed, since sugarcane is grown throughout the region, most Latin American countries could benefit. A recent study from the Inter-American Development Bank argued that replacing 10% of Mexico's petrol consumption with locally refined ethanol would save $2 billion a year and create 400,000 jobs. Several Caribbean governments hope that the ethanol boom could help revive their ailing sugarcane farms.

The greatest lure would be access to the American market. Various Central American, Caribbean and Andean countries can already send ethanol to America tariff-free, thanks to concessionary trade agreements. Maple, an

American energy investment group, plans to spend $120m on an ethanol plant in Peru to take advantage of such a waiver. A pipeline running out into the nearby Pacific Ocean will deliver the plant's output directly to tankers bound for America. Proponents of the project say it will create 3,200 jobs. If all goes well, exports could reach 120m litres a year by 2010, and perhaps as much as 400m in the more distant future.

The United States, for its part, has several reasons to encourage ethanol production in Latin America. For one thing, it will need seven times more of the stuff than it currently produces to meet Mr Bush's 35 billion-gallon target. There simply is not enough spare land in America to grow adequate feedstock for such an amount, unless scientists find a way to make ethanol cheaply from abundant materials such as wood or grass. Although Mr Bush's ultimate goal is energy independence, he would presumably prefer to be dependent on ethanol from friendly countries such as Brazil and Colombia than on oil from hostile places like Iran and Venezuela.

An ethanol boom in Latin America would also attract investment to rural areas and create lots of jobs. That might help to reduce the steady northward stream of illegal immigrants. It would certainly burnish America's image, and stem support for anti-American tub-thumpers such as Venezuela's Hugo Chávez. He has won friends throughout the region by selling oil cheaply. By sharing technology and promoting investment in ethanol, America would also be reducing Latin America's fuel bill. If it bought lots of ethanol from its neighbours, it would be providing them with a lucrative export of their own.

Mr Bush's brother, Jeb, likes the idea. In December, just before stepping down as governor of Florida, he helped to set up a group called the Interamerican Ethanol Commission to promote ethanol in the region. He had written earlier to the president urging him to devise “a comprehensive ethanol strategy for our country and our hemisphere”. The deal between Mr Bush and Lula is even more ambitious, covering the world. It might prompt people to think a little harder about ethanol.