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BIOFUELS ANNUAL

Biodiesel Annual Report

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Report Highlights:

Biodiesel production remains regulated by the Brazilian Government. As of July 1, 2009, the B4, e.g., a 4 percent blend of biodiesel in mineral diesel for fuel use became mandatory as defined by Resolution # 2/2009 of the National Council of Energy Policy. ATO/Sao Paulo projects total Brazilian biodiesel production for 2009 at 1.535 billion liters to meet projected mandatory demand.

Post:

Sao Paulo ATO

Author Defined:

Production, Supply and Demand Table (PS&D)

The table below shows the Brazilian Biodiesel PS&D for Calendar Years (CY) 2005 through 2009.

Brazilian Biodiesel Production, Supply and Demand (January-December, 000 Liters)

	2005	2006	2007	2008	2009
Beginning Stocks	0	0	0	0	90,000
Production	736	69,002	404,329	1,167,128	1,535,000
Imports	4,770	3,868	3,651	5,039	4,000
Total Supply	5,506	72,871	407,980	1,172,167	1,629,000
Domestic Demand	3,771	69,333	405,441	1,080,694	1,500,000
Exports	1,735	3,537	2,539	1,473	2,000
Ending Stocks	0	0	0	90,000	127,000
Total Utilization	5,506	72,871	407,980	1,172,167	1,629,000

Source: USDA/FAS/ATO/Sao Paulo.

Note: biodiesel density estimated at 0.875 g/cm³

Brazil's Political Division

The map below shows the Brazilian political division in regions and states.

Brazil: Regions and States



Policy

The National Biodiesel Production Program (PNPB) was created in 2004 to promote domestic biodiesel production, generate jobs and income and alleviate regional economic disparities through inclusion of family farmers, especially those in North and Northeastern Brazil.

Biodiesel includes any “renewable and biodegradable fuel for compression-ignition internal combustion piston engines, derived from vegetable oils or animal fats, which can partially or fully replace diesel oil of fossil origin”. The PNPB is non-restrictive, allowing the use of several production technologies (ethanol, methanol).

Federal Law # 11.097 (enacted on January 13, 2005) defined and established a legal mandate for use of biodiesel as a fuel. As of July 1, 2009, the B4, e.g., a 4 percent blend of biodiesel in mineral diesel for fuel use became mandatory as defined by Resolution # 2/2009 of the National Council of Energy Policy.

The aforementioned resolution follows the strategy set by the Brazilian government to

systematically increase the percentage of biodiesel in the mineral diesel (B2 during January-June 2008 and B3 during July 2008-June 2009) up to 5 percent. According to the current legislation, the required blend will rise to five percent (B5) in 2013, but it will likely happen quite before. Industry leaders claim that B5 could already be adopted in 2010 as the industry has overcome the initial production and logistical obstacles of the rising industry and it has over capacity to produce and meet the required demand.

The biodiesel “Social Fuel Stamp” is a mechanism created by the Brazilian Government to provide incentives for poorer farmers (family farmers) in disadvantaged areas. Resolution # 01 and 02 of 2005 set by the Ministry of Agrarian Development) state that biodiesel producers must comply with the following requirements to obtain the stamp:

- Purchase minimum raw material percentages from family farmers.
- Guarantee the purchase of available quantities;
- Set contracts with farmers, provide technical assistance and training.

The minimum percentages that must be purchased from family farmers vary according to region and are currently set at 30 percent for the Northeast, Southeast and Southern regions; 10 percent for the Center-West and North for the 2009/10 crop and 15 percent for the Center-West and North for the 2010/11 crop (Resolution # 01 of February 25, 2009).

The following table shows the federal tax incentives applied to biofuels production depending on the production region and raw material.

Federal Taxes Incentives for Biodiesel Production in Brazil (R\$/m3)				
Criterion	Percentage of Subsistence Agriculture		Raw Material	
	North (15%) Northeast (30%)	Center-West (15%) South/Southeast (30%)	North, Northeast	Center-West, South/Southeast
Raw Material	All	All	Castor/Palm Oil	All
Federal Taxes	0.00	70.03	151.50	177.95
Reduction PIS/COFONS	100%	89.60%	77.50%	73.57%

Source: Government of Brazil, Executive Orders # 5,297/04; 6,458/08; 6.606/08; Bill 11,116/05 and Normative Instruction MDA 01#09.

Feedstock

Biodiesel can be produced from several raw materials such as soybeans, castor seed (*Ricinus communis*), African palm oil (dende), “pinhao manso” (*Jatropha curcas*),

sunflower, peanut, animal fat, fried oil or others.

The following table shows harvested area and production for major agricultural crops, as reported by CONAB. Despite the variety of feedstock which can potentially be used to produce biodiesel, updated information from ANP, Brazil's national agency for petroleum and fuel products, shows that soybeans represent 81.33 percent of the total Brazilian biodiesel feedstock, followed by animal tallow (16.11 percent).

Quantity of Feedstock Availability for Biodiesel Production (000 hectares, 000 metric tons)						
Region	2006/07	2007/08 1/	2008/09 2/	2006/07	2007/08 1/	2008/09 2/
	AREA			PRODUCTION		
SOYBEANS						
North	410.60	517.50	497.60	1,079.90	1,472.40	1,416.10
Northeast	1,454.90	1,580.10	1,608.80	3,867.20	4,829.80	4,173.70
Center-West	9,105.10	9,634.80	9,900.10	26,494.80	29,114.00	29,134.90
Southeast	1,468.80	1,396.00	1,446.10	4,005.40	3,983.40	3,996.90
South	8,247.40	8,184.70	8,277.00	22,944.50	20,618.10	18,413.30
Total Brazil	20,686.80	21,313.10	21,729.60	58,391.80	60,017.70	57,134.90
SEEDCOTTON						
North	0.70	1.60	2.80	2.63	6.00	9.50
Northeast	353.02	373.60	328.40	1,215.68	1,369.50	1,082.40
Center-West	665.90	658.40	481.60	2,458.92	2,579.50	1,921.50
Southeast	64.50	37.30	22.10	205.07	134.60	80.80
South	12.72	6.50	5.50	27.86	17.30	13.40
Total Brazil	1,096.80	1,077.40	840.40	3,907.00	4,106.90	3,107.60
PEANUTS						
North	0.00	2.10	2.70-		6.30	8.40
Northeast	10.50	10.50	10.60	10.90	11.80	11.40
Center-West	6.69	5.10	4.70	16.03	12.60	14.40
Southeast	75.01	86.90	84.60	179.40	248.40	238.40
South	10.40	10.60	10.80	19.41	24.00	22.80
Total Brazil	102.60	115.20	113.40	225.70	303.10	295.40
CASTOR BEAN						
North	0.00	0.00	0.00	0.00	0.00	0.00
Northeast	151.20	155.90	147.40	86.90	113.40	84.60
Center-West	0.00	0.00	0.00	0.00	0.00	0.00
Southeast	4.30	6.80	9.20	6.60	9.90	11.80
South	0.10	0.00	0.00	0.20	0.00	0.00
Total Brazil	155.60	162.70	156.60	93.70	123.30	96.40
SUNFLOWER						
North	0.00	0.00	0.00	0.00	0.00	0.00
Northeast	0.80	4.70	4.50	0.90	2.80	3.10
Center-West	49.10	87.50	44.20	69.00	114.80	74.00
Southeast	2.20	0.00	0.00	3.30	0.00	0.00
South	23.30	19.10	24.30	32.90	29.50	33.40
Total Brazil	75.40	111.30	73.00	106.10	147.10	110.50

Source: MAPA/CONAB 1/Preliminary data 2/ Estimated data.

The tables below show official USDA data for soy and cotton oil production for marketing years (MY) 2005/06 through 2008/09, as well as a projection for MY 2009/10. Note that CONAB'S figures for soybeans and seed cotton (previous table) differ from USDA's official numbers and were included only for comparison basis (given that they provide a regional production breakdown).

Brazilian Soybeans and Products Production (000 hectares, 000 metric tons)					
	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Area harvested	22,229	20,700	21,300	21,600	22,000
Soybeans	57,000	59,000	61,000	57,000	60,000
Soybeans for crushing	28,756	31,511	31,890	31,350	32,220
Meal, Soybean	22,300	24,420	24,710	24,300	24,970
Oil, Soybean	5,521	6,050	6,120	6,020	6,180

Source: USDA/FAS

Brazilian Cotton and Products Production (000 hectares, 000 metric tons)					
	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Area Harvested	850	1,094	1,077	830	830
Seed Cotton 1/	2,685	3,918	4,078	3,114	3,114
Lint Cotton	1,023	1,524	1,602	1,197	1,197
CottonSeed	1,507	2,125	2,300	1,930	1,930
Meal, Cottonseed	740	1,045	1,130	948	948
Oil, Cottonseed	246	350	380	318	318

Source: USDA/FAS 1/ Seed cotton calculated based on average lint yields.

Production

Biodiesel production remains regulated by the Brazilian Government. As opposed to 2006 and 2007, biodiesel plants met the contracted volumes set by the public auctions (see Market section) in 2008 with a total production of 1.167 billion liters. Note that during 2006 and 2007, biodiesel plants delivered only approximately 50 percent of the contracted volume set by the public auctions. Lower production was due to the high cost of the raw material, specifically, soybean oil, and the fact that the 2 percent blend (B2) was not yet compulsory.

ATO/Sao Paulo projects total Brazilian biodiesel production for 2009 at 1.535 billion liters to meet projected mandatory demand. Cumulative January-May 2009 production is 510.5 million tons, or 80 percent of the auctioned volume for January-June 2009. Actual biodiesel production is reported below.

**Brazilian Biodiesel Monthly Production/Deliveries
(m3)**

Month	2005	2006	2007	2008	2009
January	0	1,075	17,109	76,784	89,516
February	0	1,043	16,933	77,085	80,274
March	8	1,725	22,637	63,680	131,330
April	13	1,786	18,773	64,350	105,717
May	26	2,578	26,005	75,999	103,666
June	23	6,490	27,158	102,767	
July	7	3,331	26,718	107,786	
August	57	5,102	43,959	109,534	
September	2	6,735	46,013	132,258	
October	34	8,581	53,609	126,817	
November	281	16,025	56,401	118,014	
December	285	14,531	49,016	112,053	
Total	736	69,002	404,329	1,167,128	510,503

Source: Brazilian Agency for Petroleum and Fuel Products (ANP)

As reported by ANP, Brazil has 65 plants currently authorized to produce biodiesel and 12 plants in the process of getting the authorization from the agency. Current industrial capacity is estimated at 4.1 billion liters, approximately 2.5 times the mandatory biodiesel production to be blended in mineral diesel (B4) as of July 2009. The table below shows industrial capacity by producing region, according to ANP.

Biodiesel Industrial Capacity (Million liters/year)	
State/Region	Authorized Capacity
TO	139,320
PA	23,400
RO	22,320
Total North	185,040
BA	306,720
CE	165,384
MA	129,600
PI	97,200
Total Northeast	698,904
GO	437,740
MT	1,054,423
MS	10,800
Total Center-West	1,502,963
SP	652,245
RJ	21,600
MG	95,544
Total Southeast	769,389
RS	863,039

PR	68,400
Total South	931,439
Total Brazil	4,087,735

Source: ANP. Updated on 07/20/2009

Note: Numbers are estimated on a 360 day operation cycle per year

Market

The Brazilian biodiesel market remains regulated by the Brazilian Government through a public auction system which sets the volume of biodiesel that should be produced and delivered to fuel distributors in a particular period of the year as well as the average sales price. The auction system gives preference to producers with the "Social Fuel Stamp", given that only those with the aforementioned stamp are eligible for production of 80 percent of the total auctioned volume.

The tables below summarize the results of all auctions from 2005 to 2009. ANP coordinated six auctions (6th to 11th auctions) to guarantee biodiesel supply in 2008. During November 2008-May 2009, 1.105 billion liters of biodiesel were sold for delivery during January-September 2009 (12nd to 14th auctions). Additional auctions should take place in the upcoming months to guarantee supply for the last quarter of the year.

Biodiesel Auctions

Auction	1st Auction	2nd Auction	3rd Auction	4th Auction
Date	11/23/2005	3/30/2006	7/11/2006	7/12/2006
Number of Suppliers	4	8	4	12
Offered Quantity (m3)	92,500	315,520	125,400	1,141,335
Purchased Quantity (m3)	70,000	170,000	50,000	550,000
Opening/Reference Price (R\$/m3)	1,920.00	1,908.00	1,904.84	1,904.51
Average Price (R\$/m3) 1/	1,904.84	1,859.65	1,753.79	1,746.48
Price Discount (%)	(0.79)	(2.53)	(7.93)	(8.29)
Delivery Date	Jan-Dec/06	Jul/06 - Jun/07	Jan-Dec/07	Jan-Dec/07

Source: ANP 1/ Price FOB, including PIS/PASEP and COFINS, excluding ICMS

Biodiesel Auctions

Auction	5th Auction	6th Auction	7th Auction	8th Auction
Date	2/13/2007	11/13/2007	11/14/2007	10/4/2008
Number of Suppliers	4	11	10	17
Offered Quantity (m3)	50,000	304,000	76,000	473,140
Purchased Quantity (m3)	45,000	304,000	76,000	264,000
Opening/Reference Price (R\$/m3)	1,904.51	2.40	2.40	2,804.00
Average Price (R\$/m3) 1/	1,862.14	1,865.60	1,863.20	2,691.70
Price Discount (%)	(2.22)	(22.30)	(22.40)	(4.00)

Delivery Date up to Dec/07 Jan-Jun/08 Jan-Jun/08 Jul-Set/08
Source: ANP 1/ Price FOB, including PIS/PASEP and COFINS, excluding ICMS

Biodiesel Auctions

Auction	9th Auct.	10th Auct.	11th Auct.	12th Auct. 1	12th Auct. 2
Date	11/4/2008	8/14/2008	8/15/2008	11/24/2008	11/24/2008
Number of Suppliers	13	20	17	21	21
Offered Quantity (m3)	181,810	347,060	94,760	449,890	
Purchased Quantity (m3)	66,000	264,000	66,000	264,000	66,000
Opening/Reference Price (R\$/m3)	2,804.00	2,620.00	2,620.00	2,400.00	2,400.00
Average Price (R\$/m3) 1/	2,685.23	2,604.64	2,609.70	2,385.93	2,388.87
Price Discount (%)	(4.24)	(0.59)	(0.39)	(0.59)	(0.46)
Delivery Date	Jul-Set/08	Oct-Dec/08	Oct-Dec/08	Jan-Mar/09	Jan-Mar/09

Source: ANP 1/ Price FOB, including PIS/PASEP and COFINS, excluding ICMS

Biodiesel Auctions

Auction	13th Auct. 1	13th Auct. 2	14th Auct. 1	14th Auct. 2
Date	2/27/2009	2/27/2009	5/29/2009	5/29/2009
Number of Suppliers	18	21	26	27
Offered Quantity (m3)	578,152		645,624	
Purchased Quantity (m3)	252,000	63,000	368,000	92,000
Opening/Reference Price (R\$/m3)	2,360.00	2,360.00	2,360.00	2,360.00
Average Price (R\$/m3) 1/	2,222.68	1,885.38	2,306.98	2,316.95
Price Discount (%)	(5.82)	(27.97)	(2.25)	(1.82)
Delivery Date	Apr-Jun/09	Apr-Jun/09	Jul-Sep/09	Jul-Sep/09

Source: ANP 1/ Price FOB, including PIS/PASEP and COFINS, excluding ICMS

Biodiesel prices received by producers are determined by the public auction system (see "Average Price" in the tables above). Producers are not allowed to change the sales price set at the auctions and consequently must search for low cost raw material and/or hedge their activities to offset risk.

According to the Brazilian Association of Vegetable Oil Industries (ABIOVE), raw materials correspond to approximately 80 percent of the biodiesel production cost. Given that over 80 percent of the Brazilian biodiesel production still results from the use of soybean oil, the profitability of the sector is highly dependent on oilseed prices.

Industry sources report that biodiesel production costs are estimated at R\$ 1.90 to R\$ 2.00/liter, depending on the producing region considering soybean oil prices at R\$ 1,800.00-1,900.00/ton and the exchange rate of R\$ 2.10-2.15/US\$.

The tables below show the price for soybean oil in 2008 and 2009 (January-

June). The average crude price in the state of Sao Paulo for the first semester of 2009 is R\$ 1,917.64/ton, as opposed to R\$ 2,686.97/ton for January-June 2008 and R\$ 2,177.63 for July-December 2008. Given that the market price is set by the public auctions, the decreasing trend in oil prices has benefited producers' profitability.

Soybean Oil, Crude - Prices (2008)

Location	January	February	March	April	May	June
Chicago (US\$/ton)	1,125.23	1,322.10	1,343.26	1,294.32	1,346.79	1,398.98
Prêmio (US\$/ton)	25.57	34.17	26.01	33.73	-12.79	-26.46
Port of Paranaguá - Fob (US\$/ton)	1,150.80	1,356.27	1,369.27	1,328.05	1,334.00	1,372.52
São Paulo - (R\$/ton com ICMS 12%)	2,518.00	2,802.50	2,857.50	2,765.00	2,652.50	2,526.25

Elaborated by ABIOVE based on several sources including.

Soybean Oil, Crude - Prices (2008)

Location	July	August	Sept	October	Nov	Dec
Chicago (US\$/ton)	1,379.37	1,635.30	1,048.45	814.82	720.54	694.61
Prêmio (US\$/ton)	-19.40	-58.70	-47.95	-33.07	-24.25	-58.97
Port of Paranaguá - Fob (US\$/ton)	1,359.97	1,106.60	1,000.50	781.75	696.29	635.34
São Paulo - (R\$/ton com ICMS 12%)	2,632.00	2,156.25	2,202.50	2,125.00	2,016.25	1,933.75

Elaborated by ABIOVE based on several sources including.

Soybean Oil, Crude - Prices (2009)

Location	January	February	March	April	May	June
Chicago (US\$/ton)	757.94	699.08	692.24	789.14	850.53	827.39
Prêmio (US\$/ton)	-57.32	-40.34	-30.13	-18.19	-6.06	-8.27
Port of Paranaguá - Fob (US\$/ton)	700.62	658.73	662.11	770.95	844.47	819.12
São Paulo - (R\$/ton com ICMS 12%)	1,908.33	1,873.33	1,826.67	1,940.00	1,950.00	2,007.50

Elaborated by ABIOVE based on several sources including.

Consumption

ATO/Sao Paulo estimates total Brazilian biodiesel consumption for 2008 at 1.08 billion liters, based on product availability. Brazil's mineral diesel consumption was estimated at 44.7 billion liters in 2008. The table below shows the Brazilian vehicle fuels consumption matrix from 2003 through 2008, according to ANP.

Brazilian Fuel Consumption Matrix (000 m3)

	2003	2004	2005	2006	2007	2008
Diesel	36,853	39,226	39,167	39,008	41,558	44,764

Gasoline C**	21,791	23,174	23,553	24,008	24,325	25,175
Hydrated Ethanol	3,245	4,513	4,667	6,187	9,367	13,290

Source: ANP ** including 20-25 % anhydrous ethanol.

Biodiesel consumption for 2009 is estimated at 1.5 billion liters to follow the mandatory mixture of two percent (B3) during the January-June period and 4 percent (B3) as of July.

Trade

The following tables show biodiesel imports and exports from 2003 to 2009 (January-May) as well as exports by country of destination and imports by origin for the years 2007, 2008 and 2009 (January-May). To date, no significant exports have occurred. However, Brazil could become a net exporter due to the excess industrial capacity.

Brazilian Biodiesel Trade (NCM 3824.90.29, metric tons)

	2003	2004	2005	2006	2007	2008	2009 1/
Imports	1,044	3,923	4,174	3,385	3,194	4,409	1,144
Exports	1,006	1,258	1,518	3,095	2,222	1,289	506

Source: SECEX. 1/ Jan-May

Brazilian Biodiesel Exports by Country of Destination (metric tons, US\$ FOB 000)

Country	CY 2007		CY 2008		CY 2009 1/	
	Quantity	Value	Quantity	Value	Quantity	Value
Argentina	640	1,678	224	676	220	660
China	147	226	169	282	95	127
Paraguay	139	704	142	873	2	10
Chile	121	331	119	420	36	140
Singapore	190	379	99	304	0	0
Indonesia	35	62	98	148	16	21
United States	105	271	70	155	0	0
Peru	50	178	54	227	30	148
Australia	38	78	49	154	13	30
Venezuela	17	38	48	87	0	0
Others	739	1,513	218	651	94	241
Total	2,222	5,459	1,289	3,976	506	1,376

Source: Secex. 1/January-May. (NCM

3824.9029)

Brazilian Biodiesel Imports by Country of Origin (metric tons, US\$ FOB 000)

Country	CY 2007		CY 2008		CY 2009 1/	
	Quantity	Value	Quantity	Value	Quantity	Value
United States	998	2,739	1,526	4,513	399	1,493
Mexico	569	1,596	940	3,132	214	773
Germany	576	2,027	694	2,718	122	470
Denmark	440	759	489	1,087	122	375
Netherlands	186	674	310	1,102	178	657
France	10	82	134	259	1	19
United Kingdom	74	258	108	457	60	269
Singapore	61	134	39	104	21	60
Spain	74	210	37	180	0	0
Canada	11	53	35	148	0	2
Others	196	510	97	502	27	74
Total	3,194	9,044	4,409	14,200	1,144	4,191

Source: Secex. 1/January-July. (NCM 3824.9029)

Stocks

In December 2007, the Brazilian Government mandated that strategic biodiesel stocks be created and managed by mineral diesel producers, namely Petrobras and REFAP, as of January 2008, in order to guarantee the regular supply of the product. Resolution #21 of July 10, 2008 published in the Official Gazette states that the creation of strategic stocks also follows regulations set for the public auctions and should amount to at least one month of domestic consumption. ATO/Sao Paulo forecasts biodiesel ending stocks for 2009 at 127,000 liters.

Exchange Rate

Exchange Rate (R\$/US\$1.00 - official rate, last day of period)

Month	2003	2004	2005	2006	2007	2008	2009
January	3.53	2.94	2.62	2.22	2.12	1.76	2.32
February	3.56	2.91	2.60	2.14	2.12	1.68	2.38
March	3.35	2.91	2.67	2.17	2.05	1.75	2.25
April	2.89	2.94	2.53	2.09	2.03	1.69	2.18
May	2.97	3.13	2.40	2.30	1.93	1.63	1.97
June	2.87	3.11	2.35	2.16	1.93	1.64	1.95
July	2.97	3.03	2.39	2.18	1.88	1.57	1.99
August	2.97	2.93	2.36	2.14	1.96	1.63	1.87
September	2.92	2.86	2.22	2.17	1.84	1.92	--
October	2.86	2.99	2.25	2.14	1.74	2.12	--

November	2.95	2.73	2.21	2.17	1.78	2.33	--
December	2.89	2.65	2.26	2.14	1.77	2.34	--

Source : Gazeta Mercantil and BACEN (as of October 2006)