

Shell in \$12bn Brazilian ethanol partnership

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Royal Dutch Shell has outlined plans for a biofuel venture that could dominate Brazil's market for ethanol and provide a platform for its worldwide export.

Shell will partner Brazil's Cosan, one of the biggest producers of ethanol from sugarcane, in a 50-50 joint venture the companies value at \$12bn.

Rubens Ometto, Cosan's chairman, said the joint venture would provide "the step forward that was lacking, in spite of all our efforts, to make ethanol a global commodity."

If the companies' non-binding agreement is consummated, the Shell-Cosan joint venture would include about 75 per cent of Cosan's assets including its 2bn litres of annual ethanol production capacity as well as its sugarcane processing mills, power plants, and ethanol trading company.

Shell would pay Cosan \$1.62bn for a half-stake in the company's core asset base. It would also contribute its 2,740 petrol stations and other fuel-distribution assets in Brazil.

Combining the companies' Brazilian fuel distribution is key to the joint venture. Together it would control almost 4,500 Brazilian petrol stations that would pump Cosan's ethanol.

Shell's deal follows that of BP, its closest European rival, which saw BP providing half the \$1bn investment in two ethanol plants being prepared by Tropical BioEnergia, a venture it entered with Grupo Maeda, a Brazilian agribusiness group, and Santelisa Vale, a Brazilian sugar and ethanol producer.

Brazil is a leader in biofuel production and consumption because of its abundant land and sugarcane production and is a testing ground for how the wider world might one day use "green" fuels.

Ninety per cent of all new cars sold in Brazil have "flex fuel" engines that can run on petrol or ethanol or any mixture of the two.

Mark Williams, Shell's director of downstream operations, said in London: "Cosan represents the best entry to sustainable biofuels in the market – the best entry of scale".

Through Shell's distribution network, he added, "We will take the lowest-carbon, least-impact form of ethanol and leverage that into a worldwide opportunity."

However the joint venture would not immediately market Brazilian ethanol through Shell's global distribution network, Mr Williams said.

Cosan produces 2bn litres per year, but the joint venture's fuel stations would require about 3bn litres annually.

Until it produces a targeted 4bn to 5bn annual litres, the joint venture would be Brazil-focused.

Trade barriers also stand to limit the amount sold to the US, the world's biggest fuel market, Mr Williams said. But "we will let the market tell us where we go with the material," he added.

Vasco Dias, president of Shell in Brazil, said, "The use of ethanol is becoming mandatory [around the world]. There is a clear perception that Brazilian ethanol is not only the most sustainable but also the most commercially viable."

Cosan's \$2.5bn in net debt would leave its balance sheet and be consolidated on the joint venture's balance sheet, the companies said.

Shell would also contribute its stakes in Codexis and Iogen, two ventures exploring "next-generation" biofuels from materials such as straw. Such ventures intend to create biofuels that are even less damaging to the environment than ethanol from sugarcane or corn.

Another goal of the joint venture, said a Cosan executive in London, is to pool research funding that would accelerate the development of next-generation biofuels.

Fonte: Financial Times, London, Feb. 1st 2010, Companies, online.

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