Lead Story

Harvester Mandate Still Luring Manufacturers to Fight for Sao Paulo.

By Bob Moser

Full mechanisation of Sao Paulo state's sugarcane harvest is well on its way within the next few years, but a recent sales stagnation of cane harvester machines has brought Brazilian manufacturers back to the drawing board in search of a competitive edge for this reliable niche market.

For more than a decade before 2007, no more than 100 cane harvesters were in operation throughout Brazil's sugarcane sector. The vast majority of cultivators relied on tried and true (aka cheap) manual labourers that wielded machetes to cut stalk, flash-burning the fields beforehand to ease the process.

But an environmental mandate signed in 2007 between the Sao Paulo state government and Brazil's leading sugarcane industry association UNICA pushed up the deadline for ending cane-field burning from 2021 to 2014 (with some areas permitted until 2017). Cane harvester sales in Brazil now exceed BRL1 billion per year, with the average new harvester costing BRL800,000 and running reliably for five years.

Manufacturers estimate that about 1,000 harvesters were sold last year in Brazil, down from around 1,500 sold in 2010. That sales dip has been credited to lingering financing problems for the cane sector as a whole in Brazil, but even if annual sales barely hit 1,000 in each of the coming years it will be more than enough demand to drive leading manufacturers to invest in improving their market share.

It's not easy to know exactly how well this machinery market is doing, because lead industry associations like the National Association of Vehicle Manufacturers (Anfavea) and the Brazilian Association of Agricultural Machinery Producers (Abimaq) lack hard data on cane harvester sales.

The figures we have to go on come from the sector's two lead players, John Deere and CaseIH. John Deere's Brazil market share is estimated at a dominant 70%, while Case offers a more conservative but growing 30% portion of the Brazilian pie.

In distant third lies Ribeirao Preto-based Santal, recently incorporated by Valtra and controlled by Grupo AGCO, which won't reveal sales data or growth estimates just yet. All of these companies say they're expecting sales in 2012 to range between 850 and 1,100 harvesters industry-wide.

That may prove to be a conservative estimate, because competitive pricing is already underway this year that could spark a fire sale for cane-related machinery over the next five months.

John Deere outsold all harvester manufacturers in Brazil in 2011, but Case is confident it can make a run at no. 1 in 2012. This will be the first year for Case to push its new 8000-series of harvesters with a relatively healthy Brazilian economy. The series was initially launched in the thick of Brazil's cane investment slowdown in 2009.

Case's new 8000 line boasts a more powerful engine, a stalk chopper with 40% more capacity and a better fuel consumption rate. Case had been marketing the new harvesters towards farmers with 100-plus tonnes per hectare of productivity, but that's no longer efficient for the more common 60 tonnes-per-hectare average today, according to UNICA.

To its credit, Case began adjusting its software last year to reflect this, investing close to BRL30 million in technology updates. That effort resulted in Case launching in late 2011 its new artificial intelligence system Smart Cruz, which adjusts engine speed (and most importantly, fuel consumption) based on real-time data the harvester collects from stalk size and weight, all without any intervention needed from the driver.

The relatively recent union of Santal-Valtra has created a sales entity that can boast possibly the broadest cane machinery portfolio in Brazil. Santal is known for its harvesters, while Valtra produces every other type of cane-related machine available.

Officials from John Deere have offered conservative estimates of around 850 machine sales industry-wide this year, based on the advanced stage of mechanisation in Sao Paulo state. Home to just over 70% of Brazil's entire cane crop, more than 80% of Sao Paulo's mill-owned crop was already mechanised in the 2011/12 season, with 65.2% of the state's entire crop machine-harvested last year.

The subset slow to conform is Sao Paulo's small family farmers. The high cost of harvesters and related machinery will remain an impediment to small canegrowers, even in the best of financial times. Manufacturers should develop ways to incentivise groups of small farmers to buy and share machinery, co-op style.

The state's cane crop could grow more than 80% between now and 2020 to meet projected demand, which would require twice the amount of cane that's planted today. This inevitable need for crop expansion is what should drive a reliable 850 to 1,000 harvester sales annually over the next three to five years

Brazil News Roundup

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BRAZIL: Sugar exports becoming less profitable

Published: 24 July, 2012

Sugar exports from Brazil were less profitable last week as local prices climbed, according to Bloomberg.

Shipping the sweetener was 8.8% more advantageous than selling it in the domestic market, the University of Sao Paulo research group Cepea said in a report. That compares to an advantage of almost 12% a week earlier. Local prices for crystal sugar climbed 5.8% to BRL58.52 (US$28.90) a 50-kilogram (110 pound) bag in the week ended July 20, it said.

"Prices of crystal sugar in the Brazilian spot market soared last week," Heloisa Lee Burnquist, an analyst at Cepea, wrote in the report. "The increase is attributed to the firm behavior of mills in Sao Paulo, which was based on the export parity to determine prices of domestic trades."

Exports have been more profitable than local sales for seven weeks, according to Burnquist. Raw sugar traded on ICE Futures U.S. in New York has climbed 13% so far this month as rains delayed harvesting and shipments from Brazil. Dry weather in India, the second-biggest producer, has also caused concerns about a drop in production there in the 2012/13 season.

Sugar output in Brazil's centre south, its main growing region, fell 29% to 6.7 million metric tonnes from the start of the 2012/13 season through the end of June compared with a year earlier, according to data from industry group UNICA. India's monsoon, which brings more than 70% of its rain, is set to be less than normal in the whole season for the first time in three years, according to D.S. Pai, head of long- range forecasting division at the weather bureau there.

Drier weather in Brazil over the past week has helped accelerate harvesting and shipments. The amount of sugar waiting to be loaded onto vessels at Brazil's main ports dropped to 2.6 million tonnes as of yesterday, down from 2.9 million tonnes on July 20, Santos, Brazil-based consultancy SA Commodities said in a report.

"Mills in Sao Paulo are finally crushing without extended halt periods," Cepea's Burnquist said, referring to the number of times mills had to stop crushing because of rainfall.

Sales of sugar in Brazil's domestic market last week were 35% more profitable than anhydrous ethanol, the kind used to blend into gasoline, and 55% more advantageous than hydrous ethanol, used in flex fuel cars, Cepea said. Both the sweetener and the biofuel are made from sugarcane.

US: Usinas Itamarati appeals federal court decision on sugar swap ruling

Published: 23 July, 2012

Brazilian sugar and ethanol company Usinas Itamarati SA on Friday appealed to the Second Circuit a New York federal judge's US$146 million judgment in favor of Merrill Lynch Capital Services Inc. in a dispute over a March 2008 swap agreement, according to Law360.

U.S. District Judge Richard J. Sullivan issued an order in March finding that Itamarati owed Merrill US$146 million for breaching the terms of the swap deal. It marked a resounding victory for Merrill, now a unit of Bank of America Corp.

BRAZIL: Datagro sees rain stranding cane in the field till next crush

Published: 20 July, 2012

Datagro says abundant rainfall over Brazil's main centre-south sugarcane crop during this dry season risks stranding some of the 2012/13 crop until the next season, according to Reuters.

Many of Brazil's cane mills have delayed the start of harvest this season, which officially started in April, to allow the crop to mature and yields to improve after a wet start to the crushing season.

And the unusually wet weather in the past weeks has kept those mills that had started crushing from getting into the fields.

The Center for Cane Technology based in Sao Paulo, the heart of Brazil's sugarcane belt, estimates that on average mills were unable to crush 11 days out of June, compared with being down five days due to rain in the month the year before.

"The abundant rainfall in the last couple of months also has its downsides, such as: a decrease in industrial and mechanical harvesting yields, an increase in mineral impurities and the interruption of agricultural operations," Datagro said in a note on Thursday. "Mills are now worrying with the prospect of postponing the harvest of some cane fields to the next crop."

Meteorologists anticipate a high probability that global weather patterns are shifting into El Nino conditions, which tends to mean wetter weather for Brazil's cane belt.
If the rains are stronger than normal during the end of the crushing season -- October through December -- mills could be forced to leave mature cane in the fields until the start of next season in April, 2013.

In 2008 and 2009, mills were forced to leave several million tonnes of mature cane in the field until the following season due to wet weather that had interrupted harvest.

Global sugar prices have been supported since the start of June by reports of the wet weather and shipping delays at the main ports in Brazil, which controls about half the world's trade in sugar.

Mills are struggling to raise Brazil's cane output after output plummeted to 494 million tonnes in the centre-south last season, the first drop in the world's biggest cane crop in 11 years.

Datagro said the wet weather will help newly replanted and freshly cut cane fields sprout and develop for harvest in the 2013/14 crush. Cane fields must be replanted every five years, at least, to maintain optimal yields.

Mills following the 2008 financial crisis postponed replanting for several years and this combined with dry weather was the main cause of the drop in output of the cane crop last season.

Mills have been aggressively replanting but analysts believe it will take until at least 2013 or 2014 to return to the record 565 million tonne range output of the 2010/11 season.

BRAZIL: Louis Dreyfus to postpone IPO

Published: 20 July, 2012

The Brazilian sugar, ethanol and bioenergy unit of Louis Dreyfus Commodities says it is delaying the trading debut of its shares on the Sao Paulo stock exchange, citing market uncertainty, according to the Australian Associated Press.

A company statement said on Thursday the decision was made after a Wednesday meeting in Sao Paulo of the board of directors of Biosev, which until June was known as LDC-Sev.

"The uncertainties on the financial market are the reasons for delaying the trading debut in the new market," the subsidiary of the French agribusiness giant said.

The Dreyfus unit announced last May it had filed for an IPO on the Sao Paulo bourse.

Kenneth Gold, president of the Biosev board of directors, insisted that the company had good exposure in the Brazilian and international markets.

"We are confident that when the economic picture improves, there will be new opportunities to launch our IPO," he added.

Biosev gave no figures but the Brazilian press speculated that the company was seeking to raise nearly US$500 million.

The Dreyfus unit manages 330,000 hectares (815,447 acres) of land and employs more than 20,000 people in Brazil.

With 13 plants on Brazilian soil, Biosev is the world's second largest sugar, ethanol and bioenergy company.

BRAZIL: Sugar vessel waiting time rises 9.5% on China demand

Published: 19 July, 2012

Williams Servicos Maritimos Ltda says the amount of sugar waiting to be loaded at main ports in Brazil, the world's largest producer, climbed 9.5% on increased shipments to China, according to Bloomberg.

About 3.04 million metric tonnes was ready for loading Wednesday at Vitoria, Paranagua and Santos, according to Williams Brasil in Recife. That was up from 2.78 million tonnes a week earlier. About 22% of all the sugar, or 679,500 tonnes, was scheduled to go to China, the second-biggest global consumer of sugar after India.

"The congestion created at the Brazilian ports is made of old sales and the traditional shipments to the Gulf, MENA and African refineries," Naim Beydoun, a broker at Swiss Sugar Brokers in Rolle, Switzerland, said in a report. China is unlikely to maintain the pace of imports, with some buyers already looking to sell back sugar, he said.

China is forecast to import 3.1 million tonnes of the sweetener in the 2011/12 season begun in October, 1 million tonnes more than a year earlier, the International Sugar Organization in London estimates. Imports in the first eight months of the season totaled 2.33 million tonnes, up from 824,000 tonnes a year earlier, it said.

The possibility of slowing Chinese imports is "the only bearish story" in sugar, Gordon Wayne, a strategist at UBS AG in New York, said in a report. Above-average rain in Brazil's center south, the country's main growing region, has delayed harvesting and shipments.

Sugar output in the region fell 29% to 6.7 million tonnes from the start of the 2012/13 season there through the end of June, according to data from industry group UNICA. Raw sugar traded in New York climbed 8.2% last month.

BRAZIL: Copersucar may again turn sugar buyer

Published: 19 July, 2012

Copersucar S.A., the world's biggest sugar exporter, may again turn to buying the physical commodity -- after surprising the market with purchases earlier this month -- as rains continue to impede the harvest in Brazil, according to Reuters.

Copersucar Chief Executive Paulo Roberto de Souza said rain over the past few days has forced 42% of the group's 48 associate mills to stop crushing.

The situation underscores how the roughly 380 mills in Brazil's main centre-south cane belt have struggled with unseasonably wet weather in the past few months that has reduced harvesting and cut into production from the world's leading producer of sugar.

"The forecast was not for this weather. We were expecting rains more toward the weekend. The result of this is seen at the port," de Souza said while speaking at an event in Sao Paulo.

Rains were lengthening the wait for ships arriving to load sugar at the main Brazilian port of Santos to 15 days and at the No.2 sugar port Paranagua to 25 days.

Brazil is entering the peak of harvest when sugar export shipments pick up. Wet weather at this time of year tends to increase the wait for vessels because the ports lack covered loaders to keep rain out of ships' holds.

In 2010, over 100 ships were waiting to load Brazilian sugar -- some for as long as 30 days.

The executive added that he expected sugar prices to continue to rise in response to the delays in harvest and exports.

New York ICE futures, which traded lower in early dealings on Wednesday before gaining 0.2% at 22.83 cents per pound, are up 19% from a two-year low hit in early June.

As a consequence of the delays in the cane crush, Copersucar opted to take delivery of more than 100,000 tonnes of sugar at the July expiration of the New York ICE futures contract, making it the first producer to receive physical sugar from the exchange in more than 50 years.

De Souza said it is possible the company could take delivery of sugar again from the exchange.

The executive said the group was directing all the cane possible to sugar production, a move that is reflected in the most recent data released last week by Brazil's cane milling association Unica.

Adding to the rain delays in crushing, de Souza said many of the group's associate mills had planned to start the season later than normal due to expectations that crushing and yields would be much better in the second half of 2012 than in the first.

Wet weather, however, is likely to shift mills' crushing more toward ethanol production. Extra moisture in the cane tends to make sugar production more difficult, de Souza said. This was reflected in the group's output estimates for this season.

Copersucar now expects Brazil's centre-south cane belt to produce 30.5 million tonnes of cane, down from 32 million tonnes seen formerly, while ethanol output is expected to grow to 21.5 billion litres, from 20 billion estimated formerly.

The group still expects the cane crush to total 505 million tonnes in the region but rains could still foil that outlook.

"We are sticking with our projection... for cane crushed but the weather is the determinant. We'll see if we manage to crush all that. Some cane may be left standing until next season," de Souza said.

Copersucar has put off its initial public offering plans for two years, de Souza said, noting that investors were not receptive to IPOs under current market conditions.

Copersucar's rival Biosev, the local sugar and ethanol unit of global commodities trader Louis Dreyfus, is struggling to fill its book for an IPO that is scheduled to price between BRL16.50 and BRL20.50 a share Wednesday night. The shares are expected to price below or at the low end of the range.

De Souza said Copersucar has sufficient capital to carry out investments in logistics, such as the expansion of its terminal in Santos, which is expected to be completed by March 2013.