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Energy

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# Gasohol corrodes Petrobrás and the Brazilian nation

by Lorenzo Carrasco Bazúa

For the first time in its 33 years, Petrobrás, the immense Brazilian state-owned oil monopoly, has lost money. The \$600 million losses on its first-half balance sheet were mainly due to the extremely high subsidies it gives the National Alcohol Program (Proalcool). The losses will be covered through foreign borrowing at interest rates above 10%, evaporating the myth that Brazil's program of substituting alcohol for petroleum would save foreign exchange.

Brazil has wasted tens of billions of dollars of capital investment in alcohol substitution over the past decade, including \$9 billion in government credit subsidies. Over 10 million acres of the country's best land have been converted to sugar cane, causing food prices to inflate and contributing substantially to the malnutrition that afflicts 36 million Brazilian children. For a decade, food-grade carbohydrates have been used unnaturally to replace lower-quality hydrocarbons. Only now that the Proalcool monster is harming Petrobrás prices on the stock market, is the mass media here beginning to question what it long promoted as "Brazil's salvation."

The crisis caused by the failure of Proalcool is so grave that the nationalist factions which created and defended the

state oil monopoly see its continuation as the worst threat to Petrobrás. That is the opinion of the president of the National Petroleum Council, Gen. Roberto França Dominguez, from ex-President Ernesto Geisel's group. "We run the risk of going down in history as those responsible for having dug the grave of Petrobrás," he warned.

To keep 3.5 million alcohol-fueled autos running, burning 191,000 barrels of alcohol per day, would mean Petrobrás paying \$35 million a month in subsidies: a direct subsidy of \$1 per gallon, plus storage and financing costs. With alcohol filling gas tanks, Petrobrás has had to export 150,000 barrels per day of gasoline it refines, without any profit at all. Thanks to this, Petrobrás has lost \$1.5 billion since 1983 on alcohol distribution alone, Petrobrás President Ozires Silva recently recognized.

Proalcool also receives indirect subsidies through state credits given away to the alcohol-producing industry. For example, on Sept. 22, the National Monetary Council decided to refinance \$280 million in internal and \$400 million in foreign debts of alcohol producers, at low interest rates and 12-year terms, with two years' grace. Despite giving producers credit facilities unavailable to most productive sectors, the government will not prevent more than 40 producers from going bankrupt.

## Proalcool eats for 165 million people

More than \$20 billion has been spent on subsidies to Proalcool since its founding in 1975, Augusto Gurgel, the president of the only Brazilian national automobile maker, estimates. Gurgel reports something even worse: The area planted in sugar cane to supply one automobile "would feed 50 people; thus, 3.5 million cars eat, in one sugar harvest, for 165 million people," 35 million more than Brazil's entire population today.

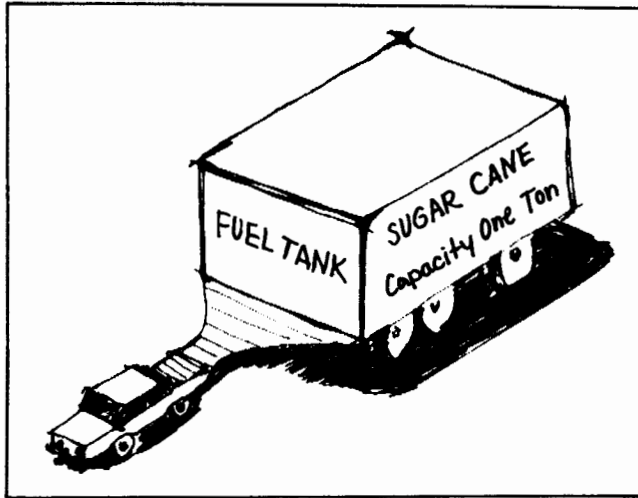
This absurd genocide is due to the thermic inefficiency and low energy flux density inherent in the use of biomass as an energy source. Sixty to eighty tons of cane per year can

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TABLE 1  
**Brazil's farmland wasted by alcohol production**

Year	Cane alcohol production (mn. liters)	Cane planted for alcohol (thous. hectares)	Alcohol-run vehicles (cumulative)
1975	175	47	
1980	2,591	700	241,000
1985	9,244	3,243	2,400,000
1987	12,000	4,800	3,500,000
1992	22,000	10,000	

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be forced out of one hectare (2.4 acres) of optimally fertile irrigated land. Each ton of cane yields 60-75 liters of alcohol. These figures mean that each private car requires more than a ton of cane per week, more than a hectare of Brazil's best farmland per year. Each taxi requires seven hectares. To keep 3.5 million autos on the road requires sowing more than 4 million hectares (see **Table 1**).

It took more than 4 million hectares of prime land to produce 1986's record 10 billion liters of alcohol. In the state of São Paulo alone, the mostly densely populated region of the country and the area with the highest technological development of agriculture, 2 million hectares were wasted on this. On the national level, 8% of the 60 million hectares used for agriculture, are planted in cane. And every year, more than 500,000 hectares are added to this insanity.

### An expensive way of saving money

The incompetent creators of Proalcool imposed it in 1975 on the projection that oil prices would reach \$100 a barrel, the level which makes alcohol "cost-effective." Since the price never broke \$30 and today is less than \$20, the only way to keep the program going is by artificially raising gasoline prices. Brazilian motorists pay over \$2 a gallon for gas, or \$90 a barrel.

In 1981, it cost Petrobrás \$41 for each barrel of gasoline it refined from oil imported at \$30 a barrel. It cost \$80 a barrel, i.e., double, to produce each barrel of alcohol. Since 1983, alcohol's production cost has fallen to \$70, but gasoline has fallen below \$30 a barrel. The alcohol production cost would be much higher were it not for the fact that the more than 1.5 million cane cutters and other workers in the program are paid less than \$3 a day.

In order to persuade consumers to buy alcohol-driven cars, the law states that gasoline prices must be kept 50% higher at the pump than those of alcohol, despite the fact that

alcohol costs more to produce. That policy, and lower sales taxes on alcohol-driven vehicles, result in 90% of new cars sold being alcohol-run.

The alcohol policy distorts the economy as a whole. It imposes structural inflation on the economy, both in terms of the immense subsidies and expenses it requires and because it inflates the cost of all other agricultural products by displacing them into less fertile regions with less technological development, further from the population centers. The outcome of this policy is a 17% net reduction in the area devoted to producing food for internal consumption by a growing population.

In sum, Proalcool is leading Brazil's whole economy toward bankruptcy. The only ones to benefit are a small group of oligarchical families, tied to the European oligarchy, who use Proalcool to guarantee their possession of immense latifundias and to give them large profits at the expense of the national economy. Thus, despite the program's manifest inefficiency, they think Brazil will tolerate their insanity, forever. They calculate that in 1992, Brazil will produce 22,000 liters of alcohol, which would require more than 10 million hectares (24 million acres) of sugar cane.

It seems that these families want to make Brazil into one big sugar plantation, based on the slave labor of millions of Brazilians. If their plans were followed, Brazil would go back to an "essentially agricultural" nation, just as it was during the Braganza family empire of the previous century.

It is a tragic irony of history that the state oil monopoly, Petrobrás, created by President Getúlio Vargas as one of the pillars of Brazil's industrialization, pays immense subsidies, at the expense of its own financial stability, to the oligarchical families who violently opposed its founding. If the alcohol program is not stopped, the landed oligarchy could easily break Petrobrás's monopoly.

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