

**UPDATE 2-Brazil's Cosan and US group in sugar farmland deal**

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(Adds quotes, details, byline)

By Inae Riveras

SAO PAULO, Aug 26 (Reuters) - Brazil's largest sugar and ethanol group, Cosan ([CSAN3.SA](#))([CZZ.N](#)), said on Tuesday it has created a new company with a U.S. group to buy farmland in the South American country.

The new company, called Radar, will seek to purchase land before any announcement of plans to build new sugar and ethanol mills, which tend to drive up land prices, Cosan Chief Financial Officer Paulo Diniz said.

"Just three months after announcing our (greenfield) projects in Goias, land prices in that region had risen almost 40 percent," Diniz said in a meeting with investors.

The identity of the U.S. group and details of the project should be revealed in the coming weeks, Diniz said.

The new company is expected to invest at least two tranches of \$185 million each to buy farmland -- \$150 million to be invested by the U.S. group and the rest by Cosan. A third tranche is also being considered, Diniz said.

The land will then be rented to Cosan and to other farm companies.

Cosan will likely have 20 percent in the new company.

#### CHANGE OF PLANS

Diniz said a recent drop in sugar prices has helped lower the value of existing ethanol distilleries in Brazil, prompting Cosan to postpone the construction of a second mill in the state of Goias while it seeks some acquisitions.

Cosan had plans to build three ethanol plants in the center-west state.

The first one, which is already being built, will come on line next year. But investments in the second mill "were slowed down" as acquisition opportunities appeared, Diniz said.

He said mills' prices are currently at \$90-\$100 per tonne of cane crushing capacity, down from \$140-\$150 per tonne just six months ago.

"Today we have some interesting prospects in terms of mill acquisitions that would cost less than the greenfield projects," he told reporters after the meeting.

Sao Paulo state, where all 18 of Cosan's mills are located, would be the preferred place for possible buyouts, he said.

He added that Uniduto Logistica SA, a joint company owned by Cosan and Brazilian groups Copersucar and Crystalsev, could start building Brazil's first ethanol pipeline in 2010.

With an estimated cost of 1.64 billion of reais (\$1 billion), it will likely be built between Paulinia, in Sao Paulo state, and the coast, with links to Conchas and Ribeirao Preto, in the same state.

Uniduto will have its own management team, which will search for funding of the project, Diniz said.

He added there are many investors, mainly foreign companies, interested in participating in the pipeline.

Brazil's state-run energy company, Petrobras ([PETR4.SA](#)) ([PBR.N](#)), also has plans to build an ethanol pipeline in Brazil, together with Japanese trading house Mitsui ([8031.T](#)) and Brazilian construction company Camargo Correa S.A.

Uniduto's pipeline would reduce costs to transport ethanol from the countryside to Santos port to 57 reais per cubic meter from 95 reais currently. Practically all ethanol produced in Brazil is taken to the coast by trucks.

Diniz said local ethanol producers Sao Martinho ([SMT03.SA](#)) and Nova America also joined Uniduto. (\$1=1.64 reais) (Editing by Jim Marshall)

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