



26 July 2017

Dear Ms Kutas,

We thank you for your letter.

The figures cited in the joint press release were taken from a study published in 2013 by the American Sugar Alliance and authored by Patrick Chatenay.¹ This provides a detailed analysis of government support and intervention in the Brazilian sugar-ethanol sector at that time. The full study can be found here: <http://bit.ly/2vFnXke>.

In response to your letter we would like to register the following points.

Ethanol and sugar

In Brazil the sugar and ethanol industries are particularly closely integrated: 94 per cent of Brazil's sugar mills can also produce ethanol.² Therefore, any public support offered to one sector will cross-benefit the other. This fact has been explicitly recognised by the WTO. Its latest Trade Policy Review on Brazil dated 12 June 2017 states that "Biofuel production, an activity subject to cross-subsidization elements, continued to be assisted."³

You write that "ethanol production is currently reducing sugar margins for Brazilian mills." This may be true, but it in no way precludes the existence of cross-benefits for sugar producers resulting from the Brazilian government's support to the ethanol sector. Your own organisation recognises the benefits of co-production of sugar and ethanol, stating in 2010 that "economies of scale stemming from ethanol production have lowered the price of Brazilian sugar and increased its presence in global markets."⁴ This is in addition to the commercial benefits resulting from the flexibility to switch between sugar and ethanol production, longer processing seasons that reduce fixed costs, and process simplification.

This is why support for ethanol is equivalent to support for sugar.

¹ Patrick Chatenay. 17 April 2013. Government support and the Brazilian sugar industry. Pro-Sun Energy. Prepared for the American Sugar Alliance. The figure of 1.8 billion USD (referring to specific support for sugar) was calculated by subtracting the 700 million USD of support for ethanol from the overall figure of 2.46 billion USD. The full report can be found here: <https://sugaralliance.org/project/government-support-and-the-brazilian-sugar-industry>.

² Based on figures as of July 2016 from F.O. Licht's International Sugar and Sweetener Report. 4 August 2016. Brazil - Ethanol distilleries invest in sugar production capacity. 256 sugar producing mills, of which 240 are also equipped to produce ethanol.

³ Trade Policy Review Body. 12 June 2017. TRADE POLICY REVIEW: REPORT BY THE SECRETARIAT- BRAZIL. WT/TPR/S/358. P. 10.

⁴ Margarita Cintra Gordinho. 2010. From Alcohol to Ethanol, a Winning Trajectory. UNICA. P. 99.

Your government has a long history of promoting the production and consumption of ethanol, dating back to the first PróÁlcool programme that started in 1975. An array of government support measures remains in place today.

Examples of Brazilian government intervention in the ethanol sector include:

- Increasing the competitive position of ethanol in relation to gasoline. Gasoline has consistently been taxed at a higher rate than ethanol, and this remains the case today.⁵ Your organisation has consistently supported the policy, most recently in 2016 when you opposed government plans to allow ethanol's exemption from PIS/COFINS to lapse from 1 January 2017.⁶
- Promoting the purchase of flex-fuel vehicles (FFV). The tax burden for FFV and ethanol-only vehicles as a percentage of the manufacturer suggested retail price is lower than for gasoline-only vehicles.⁷ Further, the private purchase of diesel-powered vehicles has been prohibited since the 1970s. These policies have fostered the development of the FFV market, to the extent that – as you point out – they today make up over 70 per cent of Brazil's automobile fleet. This share is increasing: 96 per cent of vehicles sold in Brazil in 2016 were FFV.⁸
- Setting a mandatory minimum ethanol blending rate for gasoline. Mandatory blending of ethanol into gasoline has been in place since 1975. The current mandatory blending rate stands at 27 per cent – the highest in the world. This long-standing government intervention has for decades provided a secure market for a very large quantity of sugarcane.

Brazilian government intervention has artificially boosted demand for ethanol over many years, and continues to do so now. In this way, it is an important source of support for the integrated sugar-ethanol sector.

Government loans

The Brazilian government regularly provides favourable loans and credit lines to the Brazilian sugar-ethanol sector. As you point out, in 2016 the total amount of credit made available to the Brazilian sugarcane sector was 645 million EUR. Although disbursement was low, it was considerably higher in previous years: in 2014 over 410 million EUR were disbursed by ProRenova alone; over the three years covering 2013 to 2015 over 730 million EUR were disbursed by the programme.⁹

In all, over the five years covering 2012 to 2016, loans worth a total of 8 billion EUR (\$R 23.4 billion) were made available to the industry through ProRenova and BNDES PASS.¹⁰ This substantial government intervention is recognised by the WTO as an instrument used “to expand the industrial capacity for sugar and ethanol production.”¹¹

⁵ As of June 2017, the aggregate CIDE-PIS/COFINS for gasoline amounts to R\$ 0.4816/litre, whereas for ethanol it amounts to just \$R 0.12/litre.

⁶ F.O. Licht World Ethanol & Biofuels Report. 18 August 2016. Brazil - Unica proposes alternatives to PIS/Cofins tax on ethanol.

⁷ In 2015 it was 3.3 percentage points lower in the >2000 CC vehicle category. See USDA. 12 August 2016. Brazil Biofuels Annual. GAIN Report Number: BR16009. P. 4.

⁸ UNICADATA.

⁹ Trade Policy Review Body. 12 June 2017. TRADE POLICY REVIEW: REPORT BY THE SECRETARIAT- BRAZIL. WT/TPR/S/358. P. 100.

¹⁰ USDA. Biofuels Annuals - Brazil. 2012-2016.

¹¹ Trade Policy Review Body. 12 June 2017. TRADE POLICY REVIEW: REPORT BY THE SECRETARIAT- BRAZIL. WT/TPR/S/358. P. 10.

Many Brazilian sugar producers are highly indebted, and so the reduced-interest rates payable on these loans should not be compared to the central bank overnight rate, but to the commercial rate offered to highly-indebted entities.

Brazilian exports to the EU

From 1 October 2017 Brazilian preferential access to the EU market will increase to 702,000 tonnes per marketing year, subject to reduced duties of between 11 and 98 EUR/tonne. This is equivalent to 46 per cent of the EU's combined WTO/bilateral import concessions. In 2015/16 almost all (96 per cent) of the Brazil TRQ was allocated despite the low EU prices at that time which averaged only 432 EUR/tonne (i.e. similar to those forecast by the European Commission in its Medium-term Prospects for Agricultural Markets and Income report, 2016-2026).

Clearly, it is profitable for Brazilian sugar producers, even those from the relatively uncompetitive North East (NE), to fill the EU's WTO (CXL) quotas, and this even during periods of low prices. It is the Brazilian government that allocates the import licences for the EU's Brazilian TRQ to NE producers, and the government has complete liberty to allocate these licences to producers in the relatively more-competitive Centre-South should it so wish. As you correctly point out, NE sugarcane producers are directly subsidised on a regular basis.

Brazilian sugar exports currently benefit from the REINTEGRA programme, re-established on 1 January this year. This programme offers sugar exporters a tax refund of 2 per cent of the value of the export, to rise to 3 per cent from 1 January 2018. This programme was the subject of questions raised by the European Union at the WTO in 2013 and 2014. REINTEGRA clearly goes against the spirit of the Nairobi Ministerial Decision on Export Competition; if it remains in place beyond 1 January 2019 it may contravene it.¹²

Why Brazilian subsidies matter

It is the scale and global influence of the Brazilian sugar-ethanol industry that make government support measures so significant. Brazil accounted for 52 per cent of world net sugar exports and 20 per cent of world sugar production in 2015. The scale of the industry is such that, as the OECD recently pointed out, "Brazil's cost of production and the relative profitability between sugar and ethanol production determine the general level of world sugar prices."¹³ In other words, Brazil is the price-maker on the world market.

This scale means that the flexibility rate for mixed units of 10 per cent to which you refer translates into a swing option equivalent to 8 million tonnes of sugar per annum.¹⁴ Put into context, that is over five times the EU's annual exports for the last ten years. It is equivalent to the entire global sugar deficit in 2015/16, and three million tonnes more than the estimated global surplus for 2017/18.¹⁵

In November 2016, your CEO stated that Brazil has doubled sugarcane production over the past fifteen years.¹⁶ This expansion is due in no small part to government support measures and intervention that date back to the 1970s, of which only a selection have been described here.

¹² World Trade Organization. 21 December 2015. EXPORT COMPETITION - MINISTERIAL DECISION OF 19 DECEMBER 2015. Ministerial Conference Tenth Session. Nairobi, 15-18 December 2015WT/MIN(15)/45 WTL/980.

¹³ OECD. 2014. OECD-FAO Agricultural Outlook 2014-2023. P. 51.

¹⁴ Based on a conservative TRS of 130 kg per tonne of cane; based on cane crush from 2016/17 of 650 million tonnes.

¹⁵ F.O. Licht's *International Sugar and Sweetener Report*. 19 June 2017. Looming 2017/18 surplus weighs on market.

¹⁶ Elizabeth Farina. 16 November 2016. Biofuture Platform launch - speech. Retrieved from:

<http://english.unica.com.br/presidents-desk/29534473920333453814/biofuture-platform-launch/>.

Many of these measures will persist into the future: a new biofuel programme, Renova Bio, will guide the development of the biofuel sector until 2030.¹⁷

European sugar: fighting for a level playing field

CEFS, CIBE and EFFAT are proud to defend the EU sugar sector. Not for partisan gain but for the 61 companies, 140,000 beet growers, and 28,000 workers that provide sustenance to some of the EU's most vulnerable rural areas.

We reserve the right to fight against imports of dumped and subsidised sugar, in line with the recent declaration of the G20, "to fight protectionism including all unfair trade practices and recognise the role of legitimate trade defence instruments in this regard."

As long as there is no level playing field, the EU sugar sector cannot accept further market access concessions to Brazil.

Yours sincerely,



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Director General, European Association of Sugar Producers (CEFS)



Elisabeth Lacoste
Director, International Confederation of European Beet Growers (CIBE)



Harald Wiedenhofer
Secretary General, European Federation of Food, Agriculture and Tourism Trade Unions (EFFAT)

¹⁷ Quotation from OECD, 2017. Agricultural Policy Monitoring & Evaluation. Original source: www.agricultura.gov.br/noticias/programa-de-biocombustiveis-visa-atender-compromisso-ambiental