

**Mercosur – EU Association Agreement
12 May 2016**

The Mercosur- EU trade negotiations offer a unique opportunity to increase consumers' welfare while helping to protect the environment

After almost twelve years of inactivity, Mercosur and the European Union (UE) finally exchanged trade offers yesterday. We congratulate the negotiating teams from both parts of the Atlantic for this great achievement, but **we would like to express our profound disappointment with the exclusion of sugar and ethanol from the EU offer.**

This agreement would provide a unique opportunity to strengthen our collaboration in the sugar and ethanol sector – a sector in which a number of European companies (Shell, Tereos, BP, Louis Dreyfus among others) have already heavily invested in Brazil.

Excluding ethanol from the offer is in complete contradiction with the ambitious climate objectives set by the EU and in particular with the decarbonization strategy of the transport sector. In fact, **Brazilian sugarcane ethanol is the biofuel with the highest greenhouse gas savings**, according to reports of the European Commission itself.

The sustainability and competitiveness of Brazilian sugar and ethanol would be a perfect complement to the EU production, increasing consumers' welfare, boosting innovation in the bioeconomy while helping to preserve the environment.

Therefore, we urge the **EU to include a sizeable duty-free quota for both sugar and ethanol produced in Mercosur** in the next exchange of offers.

To avoid the dissemination of incorrect information about Brazilian sugar and ethanol, we would like to share some concrete facts.

1. Brazilian sugar and ethanol exports currently account for a very small share of the EU market

Brazil is one of the world top producer and exporter of sugar and ethanol. However, the country only supplies a very tiny share of the European market. Brazilian sugar makes up 3.4% of EU domestic consumption and Brazil accounts for less than 2% of the ethanol sold in Europe¹.

¹ Calculation based on data released by the European Commission and ePURE.

Sugar is protected by a prohibitive tariff and Brazil only has access to a country-specific quota of 334,000 tons and an *erga omnes* quota of 254,000 tons. A 98 euros/t duty applies to both quotas.

Over the last 10 years, the EU has performed two reforms of its sugar sector to make it more competitive. In addition, it has negotiated free trade agreements with a series of partners and has offered duty-free sugar quotas. As a consequence, it would be inconsistent to discard sugar from the Mercosur – EU agreement. Excluding Brazilian sugar from the agreement would mean encouraging less competitive non-European producers to access the EU market and therefore supply more expensive sugar to EU consumers. This is exactly the contrary of what a free trade agreement should do.

As far as ethanol is concerned, a very high tariff of 19 euros/hl applies, making Brazilian ethanol exports uncompetitive in the EU market.

All studies published by the European Commission show that sugarcane ethanol is the best biofuel currently available on a commercial basis. Thanks to its unmatched potential to reduce greenhouse gas (GHG) emissions, it could help the EU to meet its 2020 and beyond climate and energy objectives. It is a paradox to see that biodiesel, which is considered as less environmentally friendly, faces a low import tariff while sustainable ethanol is heavily taxed.

A competitive Brazilian sugarcane ethanol would also boost the EU bioeconomy providing access to sustainable raw material at a reasonable cost for European producers of biochemicals who desperately need to remain competitive.

2. The Brazilian sugarcane sector has excellent environmental credentials.

Brazilian sugarcane checks all the key boxes when it comes to the top environmental and renewable energy priorities of the European Union.

Although it comprises less than 2% of all ethanol used in Europe today, Brazilian sugarcane ethanol has a variety of important and beneficial characteristics that can help the EU meet its key climate abatement and energy security objectives in 2020 and in the longer term:

- It does not contribute to deforestation, as it is grown mostly on degraded pasture land and almost entirely in the south-central part of Brazil (90%), far away from the Amazon rainforest;
- It achieves among the highest GHG emission savings (over 70% relative to fossil fuel alternatives, according to the default values in the EU Renewable Energy Directive, and more than 55% when estimated ILUC emissions are accounted for) of all biofuels produced at scale because of its relatively low indirect impacts and the resource efficiency of its production;
- It has a minimal role in the food versus fuel debate as acknowledged by the FAO High Level Panel of Experts²

² HLPE on Food and Nutrition (2013), Biofuels and Food Security, HLPE Report 5, June 2013

3. Brazilian agriculture receives only one-fourth of the support granted to EU production.

The Brazilian agricultural sector receives much less public support than European agriculture. Total producer support estimate (PSE) of the OECD amounted to 80 billion euros for Europe in 2014 while the Brazilian PSE was only one fourth, despite the value of agriculture production being 20% higher³. Contrary to what is often said, the sugarcane sector received almost no support. Most of the programmes available to the sector are part of the Brazilian Rural Development policy and are fully compliant with WTO rules. To promote transparency in this debate, here is a list of instruments available to the sector and their actual implementation.

- **ProRenova:** This credit line has been established to help producers to replant sugarcane every five years. The amount available for 2015 was 381 million euros and the loans must be repaid within 6 years. An interest rate of 9.45% applies to 25% of this amount. For the remaining 75%, commercial interest rates (more than 15%) prevail. Only 42% of the total amount available (160 million euros) was actually used as many producers cannot afford to pay the high interest rate⁴.
- **Ethanol Storage credit:** This loan was created to help producers to stock ethanol from any origin, mainly in the intercrop season. In 2015, 500 million euros were available and had to be repaid within 270 days, but less than 1% was actually granted to producers as the same system of dual interest rates as applied for ProRenova⁵.
- Therefore, ProRenova and the ethanol storage credit actually granted to producers in 2015 amounted to 165 million euros, that is to say 0.75% of the total value of the sugar and ethanol production.
- Because the North-East of Brazil is one of the poorest regions of the country, the Brazilian government provides a subsidy for sugarcane producers located in that region. The North-East produces less than 10% of the total country production. The last payment was done in the 2011/12 harvest season and amounted to approximately 1,000 euros per producer. Since then, no new subsidy has been granted for these Northeastern sugarcane growers⁶.
- **ICMS and CIDE:** Ethanol enjoys a partial reduction of the ICMS tax (a sort of VAT) in 10 of the 27 Brazilian states and federal district, and a full exemption of the CIDE tax (0.025 euros/litre). ICMS applies on ethanol from all origin. These measures recognize the positive externalities of ethanol that reduce GHG emissions by 90% on average compared to gasoline.
- **Reintegra:** The Reintegra aims to return to companies, wholly or partially, the remaining tax residue in the chain of production of industrial goods that are exported.

³ Agricultural Policy Monitoring and Evaluation 2015, OECD publishing, Paris, 2015

⁴ Brazilian Ministry for Agriculture, Livestock and Supply

⁵ Ibid

⁶ Ibid.

The idea is to avoid exporting taxes. The amount to be returned until December 2016 is equivalent to 0.1% of the value of the exported goods. However, none of the companies involved in the sugarcane sector have actually recovered any amount from the Reintegra programme. This measure is not an export subsidy because a system of tax restitutions is also available for the same products that are consumed domestically.

- Finally, the reduction of the IPI tax for more efficient cars is not related to the ethanol sector as it is available to all cars consuming less fuel. In addition, flex fuel vehicles can run on gasoline, on ethanol or on any mixture of the two and the government cannot guarantee that a driver will use ethanol. In fact, flex fuel cars account for 70% of the Brazilian fleet but ethanol has only replaced 44% of gasoline.

About UNICA

UNICA is the leading trade association for the sugarcane industry in Brazil, representing 60 percent of the country's sugarcane production and processing. UNICA's priorities include serving as a source for credible information and analysis about the efficiency and sustainability of sugarcane products, particularly ethanol. The association works to encourage the continuous advancement of sustainable practices throughout the sugarcane industry and to promote sugarcane-based biofuels as a clean, reliable and renewable alternative to fossil fuels.

Brussels contact: Géraldine Kutas – Email: geraldine@unica.com.br. Tel: 0495/120869