BRAZILIAN SUGARCANE INDUSTRY ASSOCIATION
ETHANOL • SUGAR • ENERGY BRAZIL

Brussels, 4 September 2017

Dear Ms Ribera, Ms Lacoste and Mr Wiedenhofer,

I was in receipt of your co-signed letter dated 26 July 2017, which I read with great attention.

I fully recognise it is your job to defend your sector and I understand you are worried about the trade negotiations between the EU and Mercosur. However, this cannot be used as a reason to propagate erroneous information that distorts the facts. Regrettably, your letter contains a number of inaccuracies which I feel it is my duty to address.

Government loans

You continue to cite the figure made available in government loans as your smoking gun of subsidisation. As explained in our letter dated 05 July 2017, there is a huge difference between the amount made available to the sector by the government and the actual amounts actually granted to the sector under favourable terms. In any case, Brazil has never breached the limits of subsidies allowed in its schedule of commitments at the World Trade Organization (WTO), and this support fit under the *de minimis* clause.

The REINTEGRA programme allows exporting producers to claim relief from residual federal taxes (PIS-COFINS, etc) against purchases made on inputs required along the production chain. This provision is designed to ensure companies are not exporting onerous taxes, and covers all exporters, not just those of sugar[1]. It currently represents no more than 2% of the value of exports. The questions raised by the European Union (EU) at the WTO regarding the REINTEGRA programme were fully addressed and answered by the Brazilian government in 2014. Since then no additional questions have been asked or requests for consultation have been made by the EU. We can therefore assume that the EU was fully satisfied by the answer provided three years ago.

In its notification to the WTO for the year 2013-14 Brazil reported an aggregate measurement of support (AMS) for sugarcane of US$43.79m, that is to say 0.24% of the value of its sugarcane production. The EU reported an AMS for the same period equivalent to 0.48% of the value of production. That is therefore exactly the double of the value reported for the same period by Brazil. It should also be noted that the following year (2014-15) sugarcane support in Brazil decreased to just 0.06% of the value of sugarcane production[2].

If we take OECD measurement of producer single commodity transfer – widely considered a more accurate way of measuring agricultural support – the EU compares even less favourably. Over the

[1] https://idg.receita.fazenda.gov.br/acesso-rapido/legislacao/legislacao-por-assunto/copy2_of_IRPJ-Incentivos-Fiscais
[2] WTO domestic support notifications G/AG/N/BRA/40 and 41 and G/AG/N/EU/34

past five years (2012-2016), support granted to sugar producers in Brazil averaged 0.75% of the value of production. For the EU, it was 16.89%, 22 times higher[3]. The EU sugar sector has been supported with very high market price support measures since 1968 to the tune of billions of euros.

The social and economic developmental benefits of trade

If the EU is serious about promoting social and economic development through sugar imports, there is no doubt that it should expand market access for Brazil. The latest 2016-17 data published by the European Commission show that Mauritius alone accounts for 28% of all EU sugar imports, and EPA/EBA countries account for 54%. In comparison Brazil accounts for only 4%, although it is the world largest producer and exporter of this commodity[4].

Brazilian legislation stipulates that sugar exports from Brazil to Europe be sourced in the Northeast region of the country, one of the most vulnerable regions of the country. The GDP per capita of this region was US$5,834 in 2015 (US$ 8,757 for Brazil). Compare that with the US$9,252 GDP of Mauritius in the same period[5].

On Brazilian efficient and environmentally responsible sugar and ethanol industry

Unfortunately, you continue to confuse industrial integration, product diversification and economies of scale with cross-subsidisation. Simply mentioning the WTO Trade Policy review for Brazil as a proof of cross-subsidisation is not enough, especially when this report does not explain which support element constitutes a cross-subsidy and refers to a source that does not even mention this alleged practice. I would counter that the Brazilian sugarcane industry should be applauded for successfully building in the economic efficiencies and economies of scale that have made it more competitive while helping to fight climate change – these are the very efficiencies that all commercially-minded competitive enterprises seek to achieve.

With 43.5% of renewable energy in its mix, Brazil is a leader in the production of clean energy and a strong advocate of its deployment as demonstrated by its commitments taken under the Paris Agreement. The mandatory blend and the partial tax exemptions Brazilian ethanol benefits from are rooted in Article 170 of the Brazilian Constitution, amended in 2003, that said that economic development must ensure to all a worthy existence, based on the principles of social justice and environmental protection, including through differentiated treatment based on the environmental impact of goods and services and of its process of production and provision[6].

You claim that the Brazilian government has been "promoting the purchase of flex-fuel vehicles". The introduction and sale of flex fuel vehicles is purely driven by demand. The government has no intervention in this market: the development and deployment of flex-fuel vehicles was a decision taken by OEMs.

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[3] OECD Producer and Consumer Support Estimates database

[4] Sugar Trade Statistics, DG Agriculture, presentation of 27 July 2017

[5] World Bank and IBGE

[6] http://www.planalto.gov.br/ccivil_03/constituicao/constituicao.htm

The state-level Property Tax on Motor Vehicles (IPVA) is currently the same for both petrol and flex-fuel vehicles (FFVs). The federal IPI tax on vehicles has differentiated rates according to the power of the vehicle. The only market segment where FFVs can be said to have a fiscal advantage in Brazil today is in the medium-to-large vehicle segment, where taxes for FFVs are a few percentage points lower than on conventional-fuel vehicles. Somewhat bizarrely, you seem to implicitly criticise a policy that is aimed at promoting cleaner, greener transportation: the tax differential in the medium-to-large vehicle segment is justified by the fact that petrol vehicles in this segment are more polluting, so the higher tax can be considered a tax on pollution – much the same way that many European markets tax larger, more polluting vehicles at higher rates than more environment-friendly options[7].

Promoting environmental sustainability and cleaner transport options was also the rationale behind the Brazilian government's support of ethanol as an alternative, clean fuel. However, that support has been gradually reduced over the years and today the tax differential between petrol and ethanol is only of 6%, half the rate of what is was 15 years ago. You fail to mention that the Brazilian government also froze the price of petrol for seven years, at a rate significantly lower than international prices – sometimes reaching a differential of as much as 30% less than the international price. This policy acted as a subsidy to petrol and destroyed the value of the ethanol sector, resulting in very low investments in both agricultural and industrial production capacity and in the closure of more than 80 mills[8].

With the Renewable Energy Directive, the Fuel Quality Directive and the energy taxation directive, the EU is doing exactly the same: promoting mandatory blends of biofuels and providing for tax exemption in EU Member States willing to do so. EU agricultural producers, including sugar producers, are benefiting from this policy and we can only encourage the EU to continue its efforts to decarbonise its transports sector. We strongly invite the EU sugar industry to follow the Brazilian example and to diversify its production to sustainable and renewable energies in order to be more competitive and contribute even more to the decarbonisation of the EU economy.

Yours sincerely,

Géraldine Kutas

A copy of this letter has been sent to Commissioners Malmström and Hogan, and their staff, as well as to relevant MEPs and Permanent Representations.

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[7] https://idg.receita.fazenda.gov.br/noticias/ascom/2015/janeiro/aliquotas-de-ipi-de-automoveis-a-partir-de-1o-de-janeiro

[8] Ministry for Agriculture, Livestock and Supply, UNICA data based on ANP, BACEN and EIA