Brussels, 5 July 2017

I write to you concerning the press release you issued on 03 July as one of four co-signatories (the European Association of Sugar Manufacturers, the Confederation of European Beet Growers, the European Federation of Food, Agriculture and Tourism Trade Unions and the European Renewable Ethanol Association) "EU-Mercosur negotiations: Stand up for EU sugar and ethanol!".

Regrettably, your public communiqué contains numerous errors, mistakes and misrepresentations that need to be addressed and corrected.

In your press release you claim that "the Brazilian government […] offers specific support to its sugar sector to the tune of US$1.8bn per annum". Politico reported this claim yesterday as "extensive subsidies to the sugar industry to the tune of $1.8bn every year".

I am unsure which sources you are using, since you didn't bother citing them, but this claim is wrong, plain and simple. The very most that can be claimed is that the Brazilian sugar sector benefited from interest savings on credit loans of amounting to just €703,760 in 2016.

Non-subsidies
The €703,760 figure is calculated thus:

In 2016, the total amount of credit made available to the Brazilian sugarcane sector was €645m, of which only €32.05m was actually drawn down by producers. It is important to underline that that this total represents credit lines made available to the sector **and is not a subsidy**. The only part of this credit line that can be in any way considered a 'subsidy' is the difference between the lower interest rate applied by the government on a small proportion of these credit lines and the normal commercial interest rate.

The **ProRenova** credit line was established to help producers to replant sugarcane every five years. The amount available for 2016 was €107m (R$400m), and loans must be repaid within six years. An interest rate of 6.5% *plus* an average spread of 3.25% applies to 25% of this amount, with commercial interests rates (around 14.18% per year + 3.25% average spread) applied to the remaining 75% of the loan amount. Only 26% of the total amount available, or €27.82m, was actually used[1]. Of that amount, the lower interest rate was therefore applied to just a quarter, or €6.95m, which represents a saving – or subsidy if you will – of just €533,760.

Ethanol Storage credit: This loan was created to help producers stock ethanol from any origin. In 2016 €534m (R$2bn) was made available to producers at an interest rate of 11% *plus* an average spread of 3.25% and had to be repaid within 270 days. **Of this total 1%, or €5.34m, was actually granted** [2], resulting in **a subsidy of €170,000**.

[1] BNDES –Brazilian National Development Bank and MAPA – Brazilian Ministry for Agriculture and Supply
[2] Ibid

That lower interest rate offered a saving of between 3.18 and 7.68 percentage points on the commercial rate. So of the total amount drawn down in 2016, **the subsidy represents a saving on interest of just €703,760**.

This is a far, far cry from the US$1.8bn in subsidies claimed in your press release. Fully, on today's exchange rate, it is €1,587,841,977 less than you claim.

Aiding development in the north-east
Because the north-east of Brazil is one of the most vulnerable regions of the country, the Brazilian government provides occasional subsidies for sugarcane producers located in that region, especially in case of drought. This is developmental aid. No subsidy was granted to that region in 2016. The north-east is responsible for less than 10% of Brazil's total production.

EU sugar imports
In 2016, Brazil accounted for 19% of EU sugar imports. But Brazil is the world's largest sugar producer and exporter. So it is logical that its share is higher than that of any other country. But we need to put that figure into context: Brazilian sugar accounts for only 3.4% of EU sugar consumption. The EU sugar market is protected by a prohibitive import tariff of €339/tonne.

The Commission itself wrote in its *EU agricultural outlook prospect for the EU agricultural markets and income 2016-2026* that most post-quota imports will come under the duty-free agreements as the CXL duty (quota hold by Brazil) of €98/tonne will be challenging for most exporters. Imports are expected to be below 2m tonnes annually. So **the Commission expects sugar from Brazil to be out of the EU market after the sugar reform enters into force**.

Cross-subsidy claims
You also claim that state "extensive support to ethanol production and consumption […] works as a major cross-subsidy for Brazil's sugar producers". Again, this claim is nonsense. There are no cross subsidies benefitting sugar in Brazil. Quite the contrary, ethanol production is currently reducing sugar margins for Brazilian mills.

First, anhydrous ethanol (the type of ethanol that is blended with petrol) accounts, on average, for just 22% of the total revenue of the industry. Since ethanol blending into gasoline is mandatory in Brazil (between 18% and 27.5%), the flexibility to divert sugarcane to sugar is constrained. Supply adjustments are always made in the ethanol market, and not in the sugar market.

Second, sugar prices have traditionally been higher than ethanol prices, which incentivises integrated sugar-ethanol producers to divert cane to the sugar market. Given that sugar has been more profitable than ethanol, producers will aggregate more value to sugarcane if it is converted into sugar rather than ethanol.

This is due to the fact that more than 60% of the ethanol consumed in Brazil is hydrous ethanol (E100), and that owners of flex-fuel vehicles (more than 70% of the Brazilian fleet) have the choice, at the pump, of the fuel they want to use. In case of tensions in sugarcane production adjustment is made on hydrous ethanol, resulting in increased prices and declining consumption, replaced by petrol.

Lastly, the flexibility of mixed units (mills producing both sugar and ethanol) to switch between ethanol and sugar production is limited to 10%.

It is deeply regrettable that your unfounded and misinformed claims have been so widely communicated to European institutional stakeholders, providing them as they do with a wholly inaccurate, unrepresentative and unfair representation of the Brazilian sugar and ethanol industry, for purely partisan gain. I am happy and willing to engage in continued constructive discussions with you on the essential issue you raise – the fear of the European sugar and ethanol industry to face competition from efficient Brazilian imports – based on the facts, but not on misinformation, and I look forward to that opportunity.

In order to set the record straight a copy of this letter has been sent to the European Commission, the European Parliament, The European Council and Politico.

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