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## USDA's 94th Annual Agricultural Outlook Forum

### Brazilian Sugarcane Sector: Recent Developments and the Path Ahead

Leticia Phillips  
Representative - North America



# About UNICA

- ✦ The Brazilian Sugarcane Industry Association (UNICA) is the **leading sugarcane industry association** in Brazil. Its more **than 120 member companies, voluntarily engaged**, represent over 50% of the ethanol and 60% of the sugar produced in Brazil.
- ✦ Representing the sector with public entities in **Brazil** and **abroad**, establishing a constructive dialogue with stakeholders, monitoring (and influencing) legislation related to biofuels, sugar and bioelectricity, promoting the Brazilian ethanol image as a clean and renewable and sustainable energy abroad.
- ✦ It has offices in **four locations**: São Paulo (headquarters), Brasília, Washington DC and Brussels

**8 billion gallons**



*2<sup>nd</sup> world largest producer:  
25% of production and 20%  
of world exports*

**15 million MWh**



*4% of Brazilian electricity  
consumption*

**40 million tons**

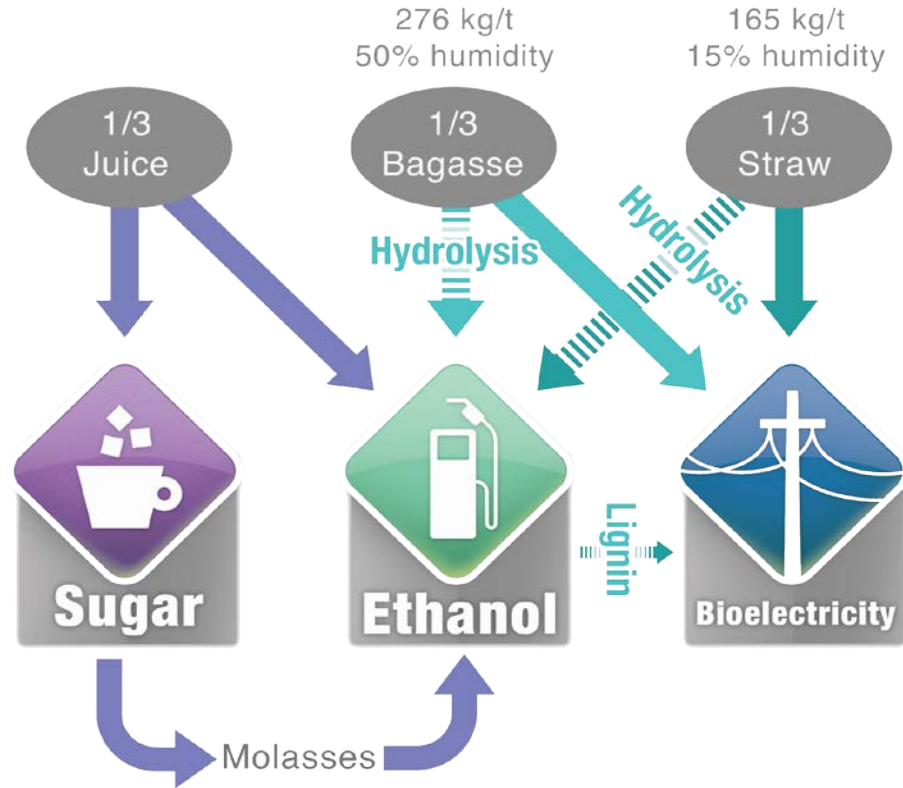


*Largest producer and  
exporter in the world: 20% of  
global production and more  
than 40% of exports*

# Breakdown of Sugarcane's Energy

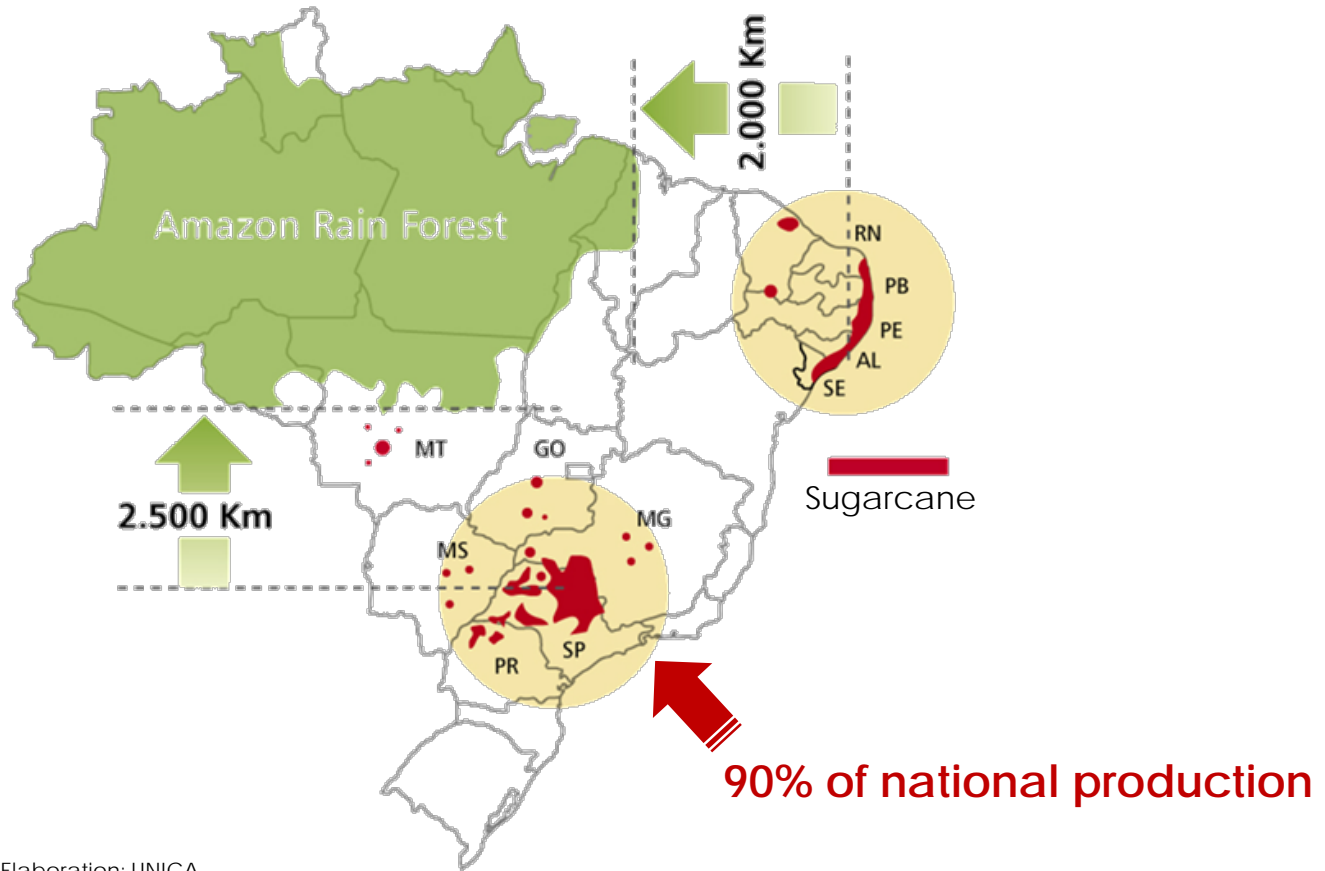


Energy equivalent of  
1 ton of sugarcane  
= 1.2 oil barrel



Source: UNICA

# Sugarcane in Brazil



Source: NIPE-Unicamp, IBGE and CTC. Elaboration: UNICA

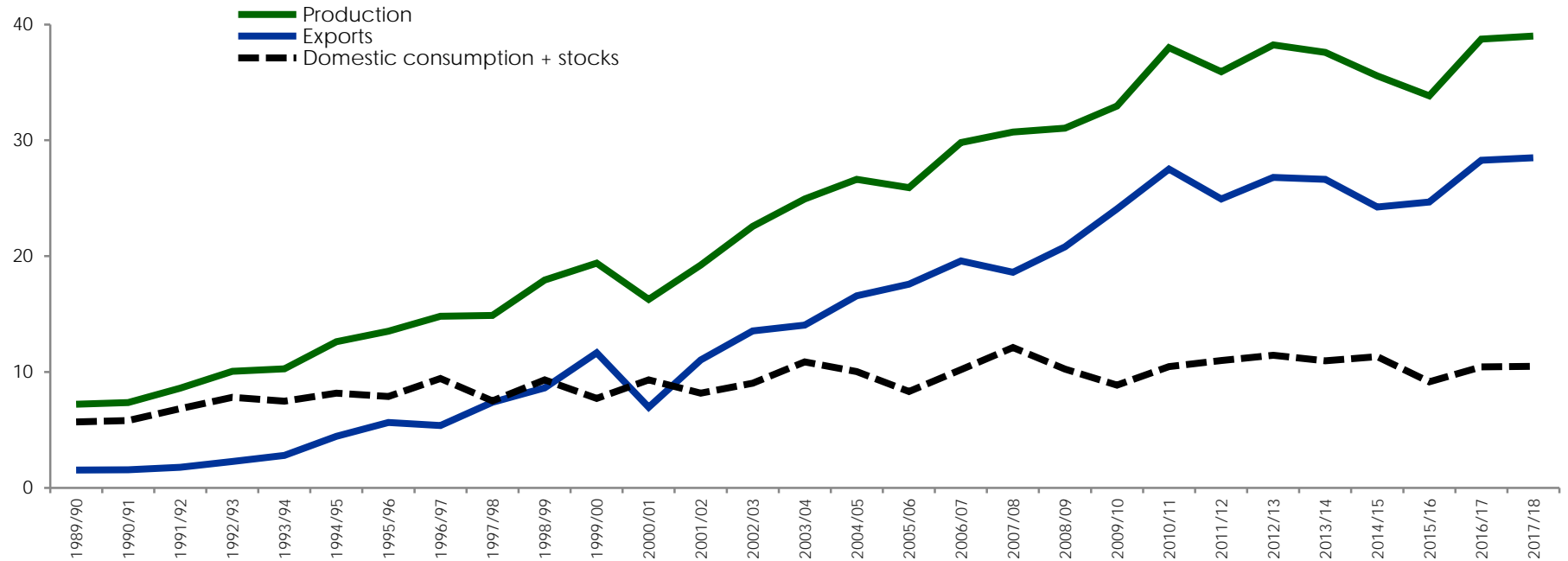


# The Brazilian Sugar Market:

An overview

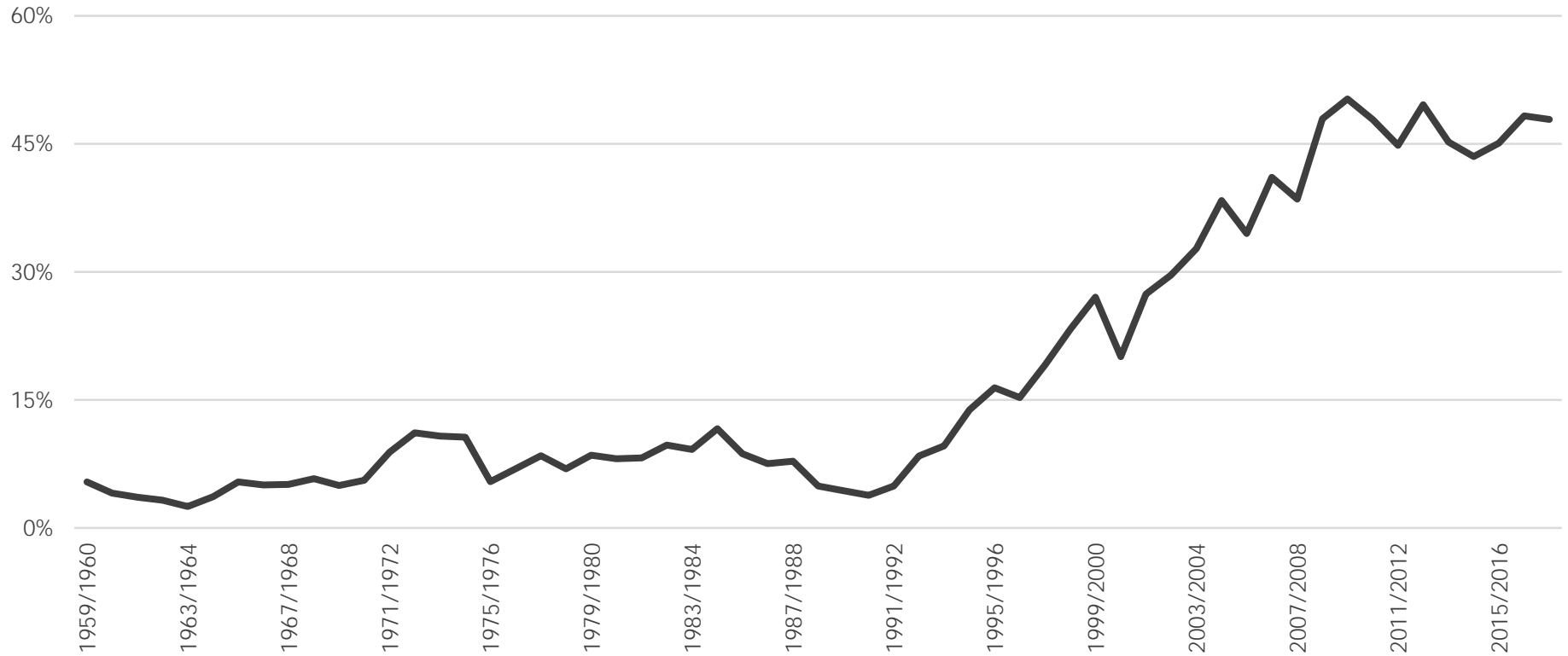
# Evolution of the Brazilian sugar market

Production, exports and consumption (million tonnes)



Source: UNICA, MAPA and Brazilian Foreign Trade secretariat (SECEX). Note: \* geometric growth rate

# Brazilian market-share in the world market



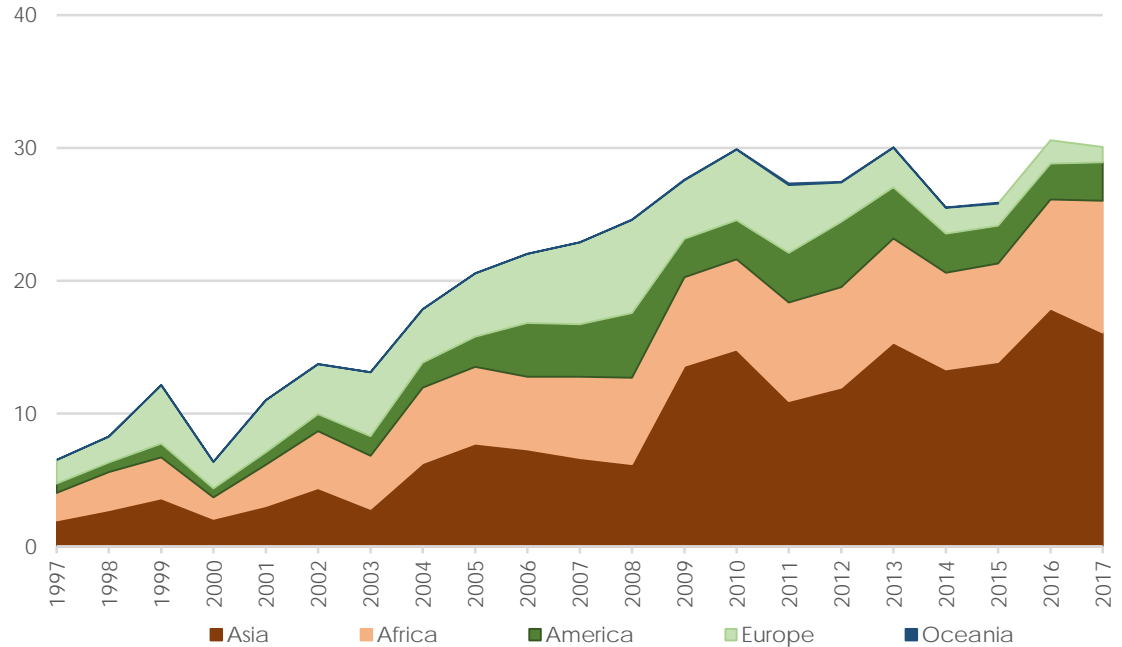
# Brazilian participation into the world market

○ Brazil is one of the leaders of a world market that includes:

- 100 producing countries
- 70 exporting countries

○ In 2017 Brazil exported sugar to 121 countries

Brazilian sugar exports by continents (million tonnes)



Source: LMC. Note: e – estimative; p-preliminary.



# Challenges for the sugar industry

## Stigmatization of sugar consumption



The bittersweet story of sugar

### Why sugar is bad for you

*And why its dangers are still being ignored in too many countries*

The Economist – 2016

## The New York Times

What Not to Eat: 'The Case Against Sugar'

### Brasileiros consomem 50% a mais açúcar do que deveriam, diz OMS

O estudo e concluiu que brasileiro exagera no consumo de açúcar. OMS recomenda consumo máximo de 50 gramas de açúcar por dia.

istof - 2015

## theguardian

Too much sugar could increase depression risk in men, study suggests

## Protectionist and distortive sugar policies across the globe

Thailand, India, China, United States and European Union

# Challenges: Trade Issues

- ✦ As of January 15th, 2018 the Thai government adopted a new regime, as a result of a challenge by Brazil. Brazilian government is analyzing the changes to ensure that it is compliant with WTO rules
- ✦ Brazil will defend its interest with respect to the safeguard measures promoted by China - Brazil represented 60% of Chinese imports, Brazil the most affected country.
- ✦ Continuous monitoring of potentially distortive public policies, by sugar producing countries.
  - ✦ Brazil's sugar quota in the US is smaller than DR's
  - ✦ Quota established based on trade flows in the 80s
  - ✦ US sugar TRQ represents 0.5% of BR exports



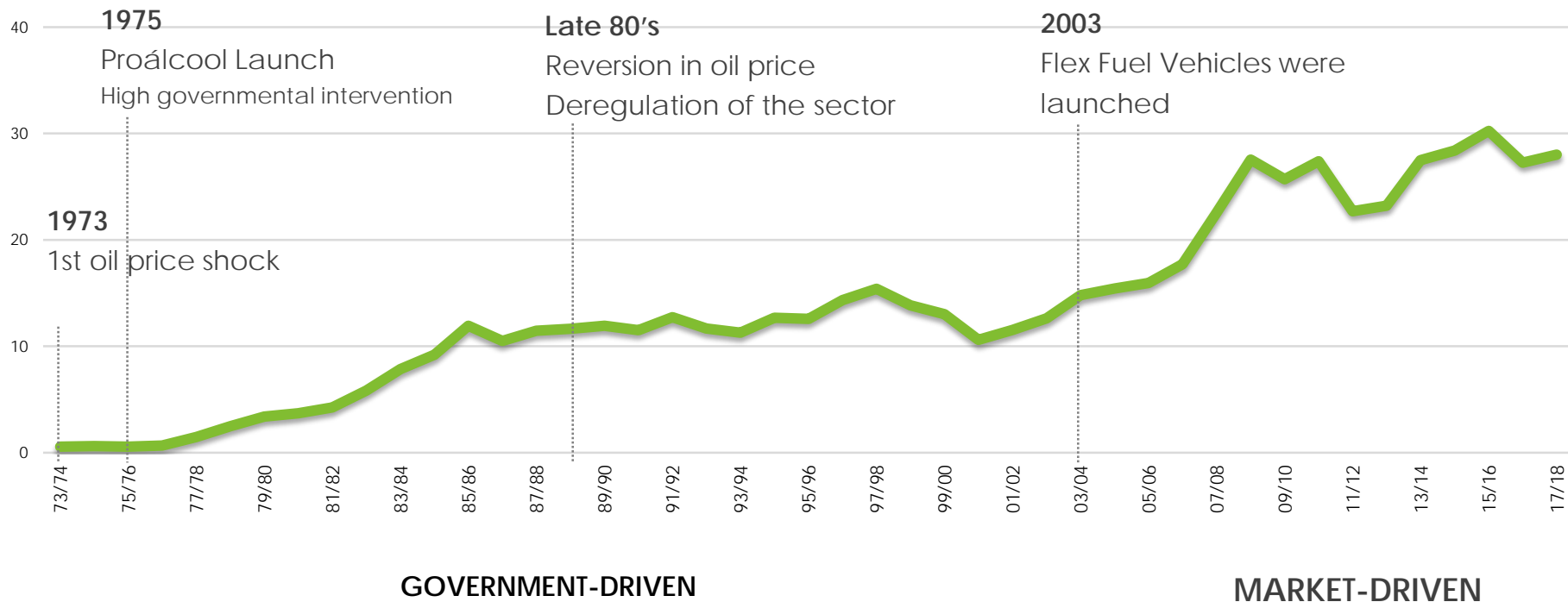


# The Brazilian Ethanol Market:

An overview

# The evolution of ethanol production in Brazil

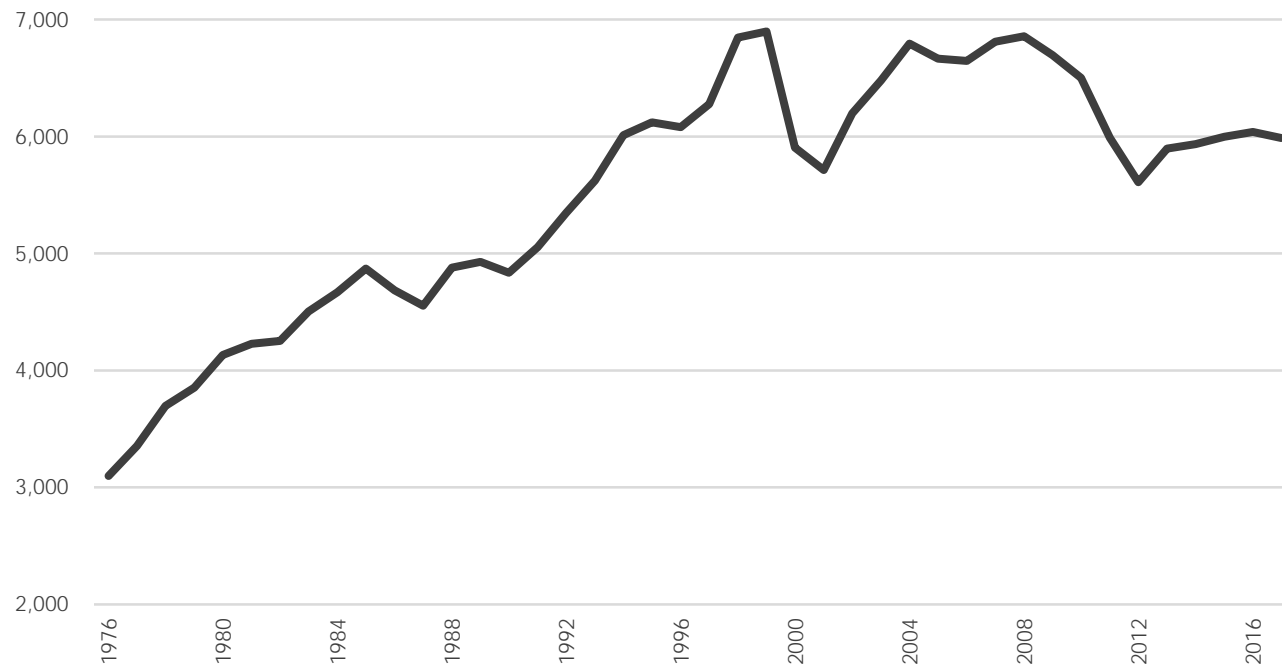
Brazilian ethanol production (billion liters)



Elaborated by UNICA with data from MAPA and UNICA

# Expansion based on efficiency and productivity **GAINS**

Historical productivity data in Brazil (liters of hydrous ethanol per hectare - moving average)



- In this period, ethanol yields **more than double**
- Up to the 2000's, productivity raised on average **3.5% p.y.**
- Productivity gains were even more significant depending on the region

# How did we get there?

With the **RIGHT INCENTIVES**, from both public policies and from the market, the

sugarcane sector responded **POSITIVELY** and **TIMELY**

Flex Fuel technology

Federal tax differential between fossil and renewable fuels

Reduction of VAT over hydrous ethanol

Rising oil prices

Competitive production costs

Global interest on biofuels and emission reduction alternatives



What lays ahead?

- UNICA still analyzing data to do a forecast
- Harvest update will be published in **April**, coinciding with the beginning of our harvest
- What we know so far?
  - Harvest will favor ethanol production
  - Sugar production will likely decrease





## Recent Policy Changes

# Trade Policy - Ethanol Tariff Rate Quota

- China and EU closed their markets to the US ethanol making Brazil the only market available to receive excess ethanol supplies
- US exported 660 MG to Brazil in 2017, three times more than 2016 exports (220MG) and five-times more than 2015 exports (135MG)
- UNICA acted to moderate the positions in the industry and produce a fair compromise - maintaining ethanol in MERCOSUR's exception list
- August 2017 Brazilian government approved an import tariff of 20% on any import volume exceeding 158.5MG/year - quota is average annual import volume from 2014 - 2016
- **Brazil's TRQ represents about 16% of US ethanol exports.**
- Tariff is valid for 2 years, starting September 2017. Temporary solution to what we hope is a temporary problem
- In Brazil sugar and ethanol are the same industry - NE producers are the most affected by lack of access to larger sugar quotas in markets like US and by imports of ethanol!

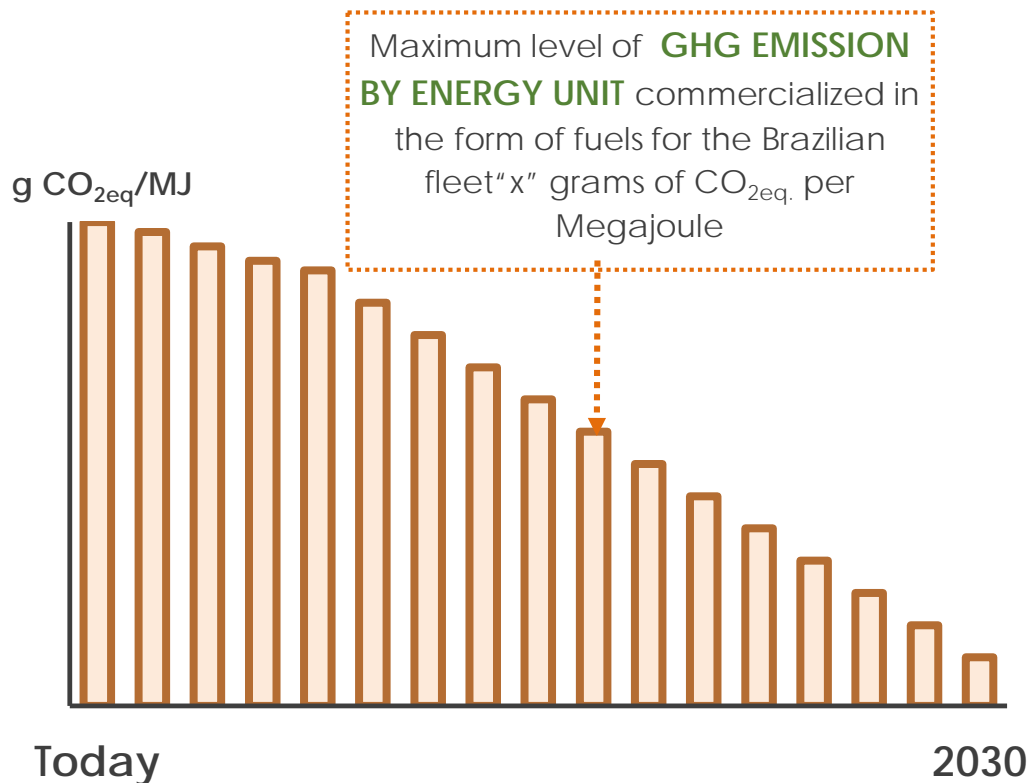


Program promoted by the Department of Biofuels (DBIO) of the Ministry of Mines and Energy (MME)

Highly important initiative to ensure emissions reduction through the sustainable expansion of biofuels supply in the country, guaranteeing the fulfillment of the commitments signed in the Paris Climate Agreement and increasing the guarantee of supply

43% reduction of GHG emissions by 2030 when compared to 2005 levels

# Mandate to reduce emissions



Establishment of **PERIODIC DECARBONIZATION TARGETS** for the fuel

sector



Guarantee of **supply** and in a **sustainable manner**

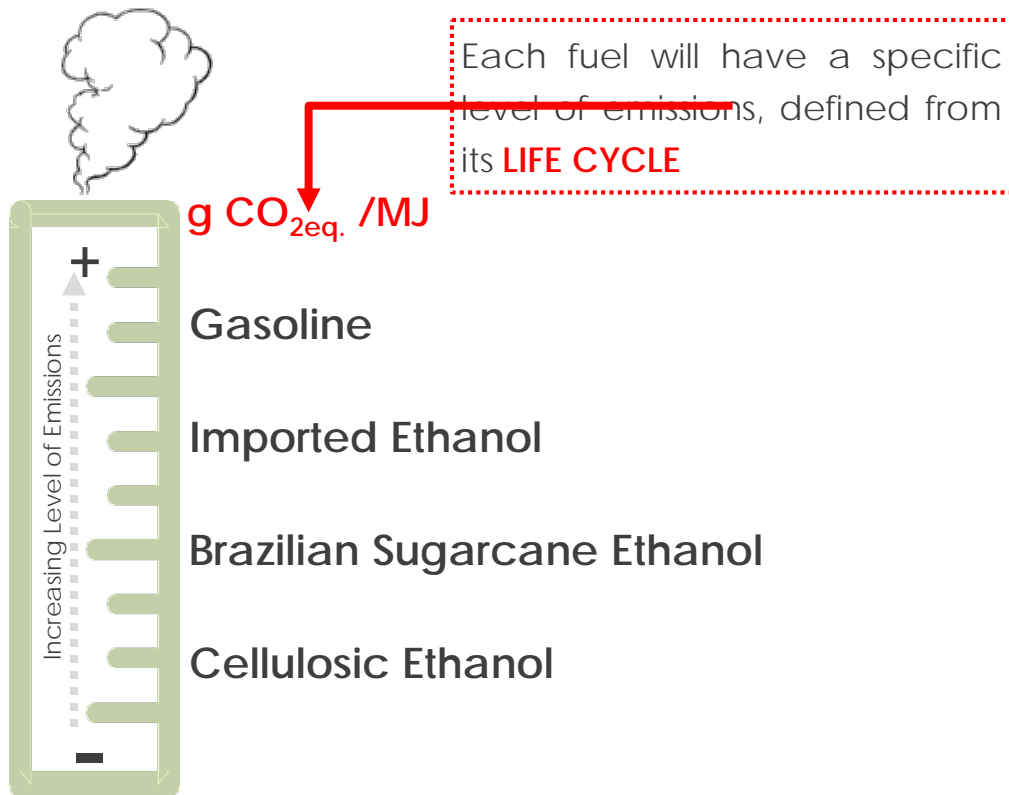


**PREVISIBILITY** and **CLEAR RULES**



Vital to promote **INVESTMENTS** in the production and for development of other government programs

# How will decarbonization targets be met?



Competition between sources in meeting decarbonization targets



Guarantee of incentives for the search for the highest environmental and economic **EFFICIENCY**

# How the RenovaBio works



Ethanol Gallons



Ethanol Gallons



Ethanol Gallons



Producer

Distributor

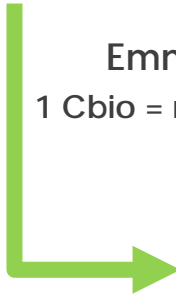
Fueling Stations

Consumer

Market

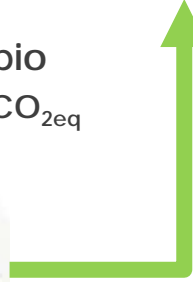
Emmission of Cbio

1 Cbio = reduction 1 t CO<sub>2eq</sub>



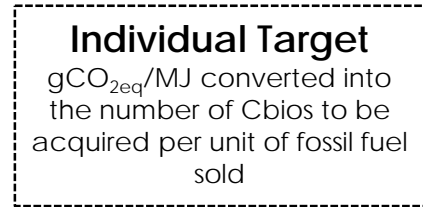
Trade of Cbio via  
Stock Exchange

Acquisition of  
CBio

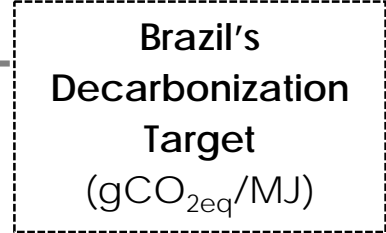


Individual Target

gCO<sub>2eq</sub>/MJ converted into  
the number of Cbios to be  
acquired per unit of fossil fuel  
sold



Brazil's  
Decarbonization  
Target  
(gCO<sub>2eq</sub>/MJ)



## □ Next Steps

- Up to 6 months after sanction (June 2018): definition of targets
- 18 months after definition of targets: regulatory completion
- Effective from the beginning of 2020



ApexBrasil

BRAZILIAN TRADE AND INVESTMENT  
PROMOTION AGENCY



Thank you!

[www.sugarcane.org](http://www.sugarcane.org)



@SugarcaneOrg

leticia@unica.com.br

