May, 20th 2015

Brazil’s Fuels Policy Developments and the Ethanol Industry.

Leticia Phillips
Representative- North America

About UNICA

- The Brazilian Sugarcane Industry Association (UNICA) is the **leading sugarcane industry association** in Brazil. **Member companies** represent approximately 60% of the sugarcane, sugar and ethanol produced in Brazil

- UNICA's activities and expertise cover key areas including **economics, energy**, **technology**, **domestic & international trade, regulation, environment, sustainability**, **corporate social responsibility and communication.**

- Offices in São Paulo, Brasilia, Washington, DC and Brussels

Our Industry in numbers

- **390** mills[1]
- **43.8** US$ billion: GDP of sugarcane supply chain (~*2% of domestic GDP)*[2]
- **1.09** million: direct employment [3]
- **70,000**: sugarcane growers
- **16.1%:** participation of sugarcane on Brazilian energy matrix[4] - *2nd energy source (behind oil derivatives) and 1st renewable source in Brazil*

28 billion liters

2nd world producer: 25% of production and 37% of world exports

15 million MWh

3.3% of Brazilian electricity consumption; 38% of annual planned production in the Belo Monte complex

38 million ton.

Largest producer and exporter in the world: 22% of global production and 45% of exports

Recent Changes in the Fuel Market and their effect in the 2015/2016 harvest

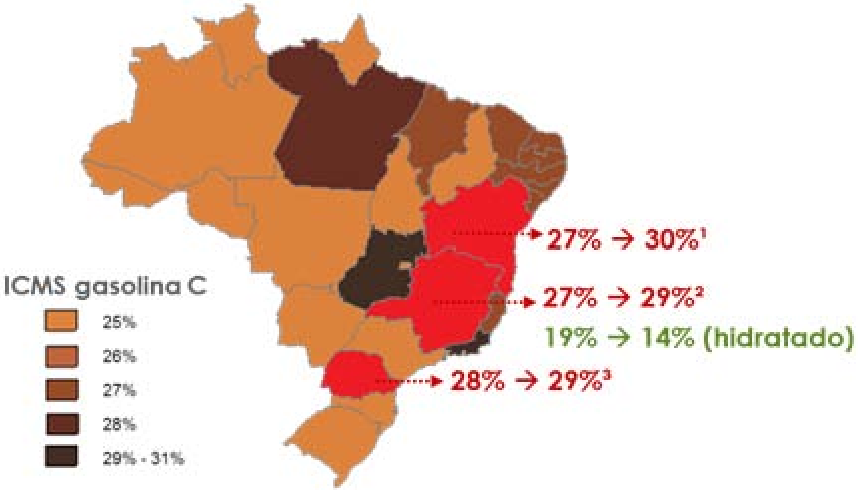
Recent Advances in **Public Policy**

- **CIDE's** partial establishment and adjustment of the **PIS/COFINS** charged over gasoline A
  - Average increase of the potential price of hydrous ethanol of 0,15 R$/litter
  - Change in the government posture regarding the economic rationale of gasoline pricing policy in the internal market

- **Increase of anhydrous mix** in gasoline from **25%** to **27%**
  - Additional demand in the 2015/2016 harvest from **1 billion** litters of anhydrous ~ **13 million** tons of sugarcane

Recent Advances in **Public Policy**

- **Changes in ICMS rates** over ethanol and gasoline in important states
  - Increase of ICMS rate on Gasoline in Paraná and in Bahia
  - In Minas Gerais, increase of ICMS rate of gasoline and decrease of ICMS rate of ethanol, could increase potential demand for fuel up to **1,5 billion Litters** per year

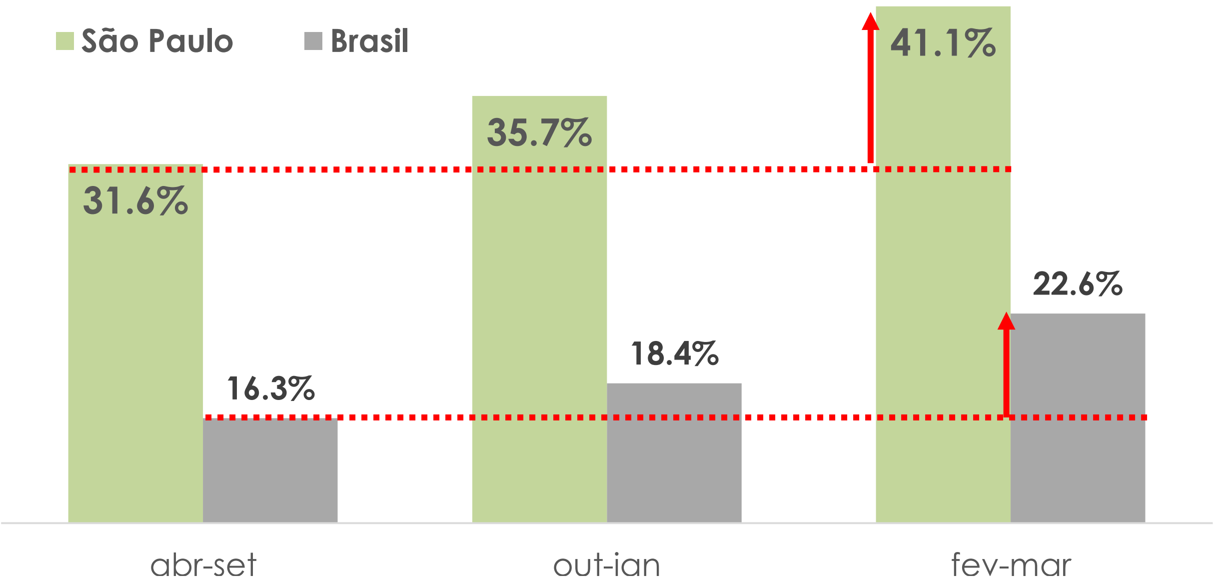


- Changes in electrical energy public auctions, recognizing, although partially, the advantages of biolectricity

[1]Lei 13.207 – 23/12/2014; [2]Lei 21.527 – 16/12/2014; [3]Lei 18.371 – 15/12/2014

Measures begun to have **positive effects**

Share Hydrous in Fuel Consumption Otto Cycle



28/set: campaign aired in Brazil

Adjustment Pis/Cofins + CIDE

In the next months, this consumption pace of hydrous ethanol should remain stable and we **expect a 2015/2016 harvest that will favor ethanol production.**

Fonte: ANP. Elaboração: UNICA

But the industry has still to reap the benefits of the changes…

Average Revenue – State of São Paulo

- The average revenue/ton of cane is still lower than in 2011/12 in nominal terms
- The average revenue/ha remained pretty stable in the last 4 seasons in nominal terms
- Costs have risen in this same period resulting in economic losses and financial stress.

	2011/12	2012/13	2013/14	2014/15
R$/ton of cane	**114.02**	**105.76**	**100.39**	**107.92**
		-7.2%	*-5.1%*	*7.5%*
R$/hectare	**7,833**	**7,869**	**7,991**	**7,964**
		0.4%	*1.6%*	*-0.3%*

The **challenges** of the Industry

- Main challenge: recouping the capacity of making money out of sugar and ethanol in the **short term!**
- Recent measures have to remain credible. This means **stable** and **predictable**.
- Recent measures have to be completed to be effective
    - Tax differentials have to be enough to compensate for the positive externalities offered by the ethanol and energy from biomass
    - Blend has to be stable over time

In the long-term the outlook is **positive**

In the long-term fundamentals are there:

- Global energy security will depend on renewable sources
- Environmental Sustainability – upcoming COP 21 will renew the global debate and policies regarding GHG emissions
- Brazil continues to be competitive in the sugar market despite:
    - protectionist and distorting economic policies by other producing countries; and
    - global campaigns to villainize sugar comsumption
- Brazil has the natural resources, technology, labor force and experience to attend the internal and external demand for ethanol. We are doing our part and we are looking forward to an institutional environment that provides a solid basis to relaunch the investment wave.

The outlook now and beyond

- First we need to be able to make money from the sugarcane business!
- We need to believe that our return is sustainable
- Return will provide the conditions to resolve our financial struggles and to recoup the track of investments
- For the time being we have strong reasons to believe that the 2015/16 harvest will favor ethanol production.

Thank You!

www.unica.com.br

www.sugarcane.org