

Getting the facts straight on market distortions in the sugar market

The United Kingdom left the European Union on 31 January 2020 and is developing its independent trade strategy for the first time in nearly fifty years as it prepares to exit the EU's customs union. Within this context, the British government announced the introduction of a new zero tariff, the Autonomous Tariff Quota (ATQ), for imported raw sugar as of 1 January 2021.

In a protectionist attempt to shield consumers from the benefits of competition in the sugar market, voices have emerged asserting that “market distortions and differences in regulatory standards compared to UK sugar production mean a zero quota does not achieve genuine economic competition”.¹

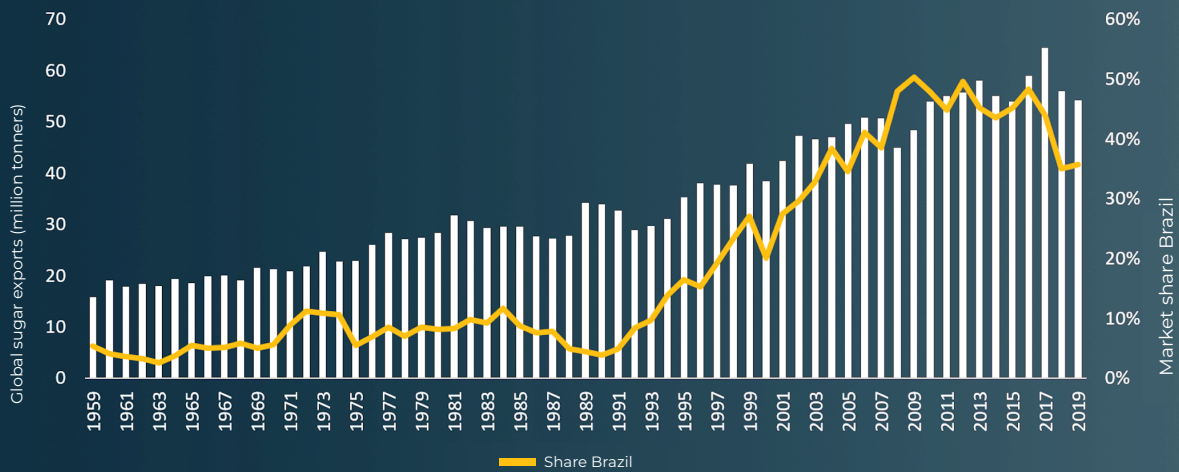
On this backdrop, British Sugar provided trade law and economic policy consultancy Competere “an unrestricted educational grant” to conduct a report on ‘**Market Distortions and how best to deal with them: Sugar Sector Case Study**’. It is unfortunate that the Competere report plagiarises whole sections from an earlier report published by the American Sugar Alliance in 2013, and in doing so, duplicates a series of factual errors and misrepresentations about the Brazilian sugarcane industry.

The Brazilian sugarcane industry is one of the most efficient and competitive examples of tropical agriculture in the world today and serves as an example of the power of farmers in overcoming adversity and competing in the global economy. We welcome the opportunity to, once again, get the facts straight on the false claims made by the American Sugar Alliance that were copied at face-value into the report presented by Competere commissioned by British Sugar.

1 The report suggests that Brazil maintains a sugar tariff as a protectionist measure

- Brazil is a member of the Common Market of the Southern Cone (Mercosur), alongside Argentina, Paraguay and Uruguay, a customs union that establishes a Common External Tariff for the four countries, to all goods imported from third countries, including sugar, that currently has a 16% tariff. The founding Asunción Treaty foresees that each country be entitled to a restricted number of goods (around 100 products) that may be exempt from the Common External Tariff. The exceptions are regularly put to the scrutiny of CAMEX, the Brazilian Trade Board of the Ministry of Economy. Given that Mercosur foresees that each country may eliminate duties on a small range of products, the focus is on imports of products that may support industrial competitiveness. Brazil prioritises the use of its exceptions for medicines, automotive parts, IT and telecoms products that are not produced domestically.
- In the case of sugar, Brazil is the world's largest producer and exporter, accounting for 45% of global trade. The country's competitiveness is such that any change in the import tariff would have no effect at all.

¹ NFU sugar position on new raw sugar Autonomous Tariff Quota

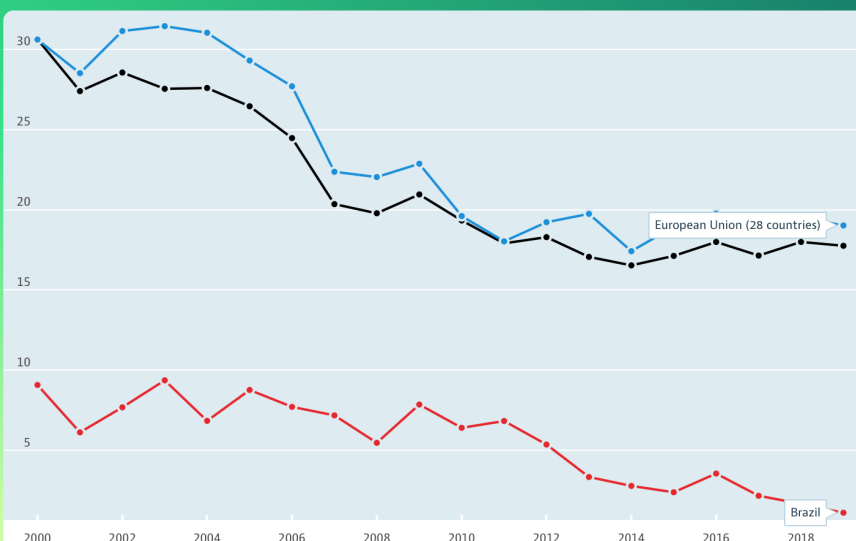


Graph 1 - Brazil market share in global sugar trade

- As the author of the study correctly points out, governmental control mechanisms in the domestic sugar market ceased at the end of the 1990s. This support was based on incentivising nascent industries to grow in an environmentally-sustainable manner. For over twenty years Brazil has been operating in a free market, and as the above graph clearly demonstrates, this translated into greater international market competitiveness. The country's market share in sugar exports soared from 10% in the 1990s to an average of 40-45% over the past decade.

2 The Competere study duplicates the American Sugar Alliance's fuzzy math and outdated distorted calculations to exaggerate Brazilian government support to the sugarcane industry.

- It is unclear why the consultancy decided to copy the American Sugar Alliance's old distorted calculations considering these have been long refuted. Reflecting its position as a competitive exporter, Brazil provides relatively low levels of support and protection to agriculture. According to the OECD's 2020 Agricultural Policy Monitoring and Evaluation Report, producer support as a share of gross farm receipts fell from 7.6% to 1.7% between 2000-02 and 2017-19, well below OECD averages.



Graph 2 - Comparison of EU and Brazil Producer Support in % of gross farm receipts

Source: OECD, 2019
Producer Support, % of gross farm receipts.

- Where as the United Kingdom's support levels are still intertwined with those of the EU for the purposes of OECD analysis, we await the United Kingdom's independent notification to the WTO Committee on Agriculture regarding any use of preferential loans for production, marketing and investment credit in order to proceed with appropriate comparisons. Considering EU notified figures, by all likelihood, the United Kingdom's rate of gross farm receipts as producer support is expected to continue to lie above OECD average.
- The approach used by Competere is correct in estimating the subsidy as the difference of the soft loan interest rate and the opportunity cost of the money raised by the government (under the SELIC rate). However, the method proposed by the American Sugar Alliance, was devised to overstate the equivalent subsidy on loans provided by government sources and has unfortunately been replicated into the Competere study.
- Subsidies associated with soft loans are fully notified by the Brazilian government to the WTO. In the Brazilian government's latest submission to the Agriculture Committee on 19 February 2020, the total level of support provided in the form of debt rescheduling and insurance programmes to its domestic agricultural sector was USD 1.05 billion in non-product specific support in 2018. Specifically, and as observed in the official figures detailed below, the sugarcane industry received around 5% of the total loans to the agricultural sector during over the past three years.

Year ¹	Productive capital credit (R\$ million)		(C) Gross value of sugarcane production (R\$ million)	Proportion (%)	
	(A) sugarcane	(B) Total value		A/B	A/C
2013	4,416	58,599	42,947	7.5%	10.3%
2014	4,017	54,531	52,128	7.4%	7.7%
2015	3,972	75,359	43,631	5.3%	9.1%
2016	4,395	64,975	51,598	6.8%	8.5%
2017	3,176	63,704	53,862	5.0%	5.9%
2018	3,244	68,101	52,239	4.8%	6.2%
2019	2,917	73,052		4.0%	

Table 1. Sugarcane: productive capital credit and gross value of production

Source: Brazilian Ministry of Agriculture, Supply and Livestock, 2020

Note: 1 productive capital credit is calculated between July and the June of the previous year. On the case of gross production values, the data reflects the civil year in question.

The Competere study incorrectly alleges one third of Brazilian government support for the sugarcane industry comes in the form of reduced pension payments costs for agricultural workers

- Brazil has a retirement pension system that is funded by contributions from workers throughout society. The Brazilian Constitution sets differentiated pension contributions “based on the economic activity, the intensive use of labour, the size of the company or the structural condition of the labour market.”
- In order to increase the participation of rural and agricultural workers, who historically have been left out of the formal economy (and tax base) and to guarantee access for all of its population to social security benefits, the Brazilian National Institute for Social Security (INSS) has assessed constitutionally-sanctioned, differentiated contribution rates for these workers. Specifically in the case of the sugarcane industry, the bulk of INSS rates are based on gross revenue, a factor that has helped the formalisation of labour contracts.
- Calling these social security contributions a subsidy does not pass the laugh test, even under the World Trade Organization (WTO) rules. First, there is no requirement under the Agreement on Agriculture (AoA) to report policies associated to pension funds and social security systems, not even in the Green Box. The reason countries are not required to report such policies is because there is no favourable treatment embedded in them. This contribution is an obligation and the contribution has to be made at the expense of the cash income of farmers and companies. Second, under the WTO’s Agreement on Subsidies and Countervailing Measures (ASCM) a policy granting subsidies is in place only if a government transfers funds, if a government revenue is foregone, if a government provides good or services other than general infrastructure, or purchases goods, and if a government makes payments to a funding mechanism which differs from practices normally followed by governments. Brazil’s current social security contribution system cannot be framed in any of the above definitions.
- The report further argues that sugarcane mills have an advantage because they can decide whether to opt to be taxed an equivalent of 2.6% of their turnover instead of paying a 28.8% tax rate on payroll. In 2020, the Brazilian sugarcane industry association ran an audit of its members to assess whether this tax option provided any advantage and found that 52% of mills opted for tax on turnover whereas 48% of mills opted for the payroll tax. The business split clearly demonstrates that there is no specific advantage conferred by paying the INSS through the turnover tax rather than on payroll.
- In sum, differentiated pension contributions are not a subsidy but a tax that, like the progressive tax system in place in the United Kingdom, seems to include all sectors of society each contributing at different levels.

- Due to the complex and cascading tax system and robust labour laws in Brazil, it is not uncommon for companies, domestic and foreign-owned, to end up in litigation over tax disputes. At times, the Brazilian government has opted to revive taxes with a discount rather than waiting on lengthy court litigation.
- The Brazilian government has established a tax repayment programme, commonly referred to as REFIS, to allow the government to recover taxes associated to tax owned by private companies, both domestic and foreign. The programme generally covers federal taxes such as the Industrialised Product Tax (IPI), Social Integration Programme (PIS) and Social Security Financing (COFINS) contributions as well as employer's social security cost share.
- In addition, the claims made by the anonymous commentator cited by the report about the company Guarani are inaccurate. Guarani accounting describes two national official programs, called REFIS (government program for the refinancing of tax arrears, Law n. 9.964/2000) in 2000, and PAES (that allowed tax debt lengthening, Law n. 10.684/2003) in 2003 but those figures are far away from the reality and those programmes basically aimed to mitigate the distortions of the Brazilian economy at the time.
- Over 130,000 companies across Brazilian economic sectors enrolled in REFIS, and more than 280,000 companies also benefited from the PAES³. In both cases there was no reduction of the principal debt amount nor of the interest rates. The programme alleviated debt fines (by 40% and 50%, respectively) and allowed a debt to be lengthened up to 15 years or more, depending on the company's total gross revenue. Just to illustrate the economic burden that Brazilian companies suffered at that time, it is worth mentioning that the country's primerate, SELIC, was about 16% in 2000 (with an inflation rate of 5.97%) and reached a peak of more than 26% per year in mid-2003 (with inflation of 9.3%)⁴.

³ Eduardo Cucculo, "Refis da crise já tem 200 mil pedidos de parcelamento", *Folha de São Paulo*, 9 September 2009

⁴ Brazilian Central Bank, historic evolution of SELIC: <https://www.bcb.gov.br/controleinflacao/historicotaxasjuros>

- The Brazilian sugarcane industry has diversified its production output to meet the world's growing demand for sugar and ethanol. As exemplified by the effects of the COVID-19 pandemic, the interactions between the sugar and ethanol markets can swing from positive to negative and are essential to ensure security of supply, environmental sustainability, corporate responsibility and economic resilience.
- Brazil has maintained historical global leadership in decarbonised transport. The first mandatory blending dates back to 1932 and it was in the early 1980s that Brazil installed a mandatory blending of 20% of ethanol into fossil fuels for transport.⁵ This forty year advance on mandatory blending has not only helped to reduce fossil fuel imports but more importantly translated into massive greenhouse gas emissions savings.
- Mandatory blending is a key factor in supporting countries to achieve their international commitments taken under the Paris Climate Change Agreement. The United Kingdom also applies mandatory blending in line with the Renewable Transport Fuel Obligation and is currently consulting on the introduction of E10 that would alone translate in seeing emissions reductions equivalent to taking 350,000 cars off the road each year.⁶ This move by the British government is in line with its objectives under the Paris Agreement to promote low-carbon transport. Neighbouring countries, such as Sweden and France are already going much further in introducing E85 to reduce greenhouse gas emissions through the equipment of a simple motor conversion tool as an option alongside mandatory 10% blending.
- The superior environmental performance of sugarcane biofuels in reducing greenhouse gas emissions whilst maintaining marginal land use change impact has already been recognised by international authorities around the world including the US Environmental Protection Agency and the European Commission. The bottomline is that British producers should not be weary of diversifying production as it reduces exposure to one commodity and increases competition in the economy.

⁵ Brazilian Ministry of Agriculture, Supply and Livestock, History of mandatory blending requirements: <https://www.gov.br/agricultura/pt-br/assuntos/sustentabilidade/agroenergia/arquivos/cronologia-da-mistura-carburante-etanol-anidro-gasolina-no-brasil.pdf>

⁶ "New era of green fuel set to clean up Britain's Roads", Department of Transport, 4 March 2020

Time for some competition



For the first time in fifty years the United Kingdom will be at the steering wheel of its own trade policy and gets to choose the trading environment best suited to ensure competitiveness of its firms and more choice at better prices for its consumers. The Brazilian sugarcane industry is fully integrated into the world market without contributing to, or benefitting from, distortive market measures and we look forward to supplying the British market to ensure a secure and sustainable supply of raw cane sugar for refining.