

# Cornering the market in agrofuels: Brazil's bid to dominate the EU

*Kim Bizzarri, Corporate Europe Observatory, November 2008*

Brazil, the world's leading exporter of agrofuels (crops grown for fuel), is hosting an **International Conference on Biofuels** between 17-21 November 2008.<sup>1</sup> With over 1000 representatives from national governments, international organisations, academia, business and civil society, the event represents Brazil's greatest PR effort so far to promote its ethanol as a sustainable renewable energy source in the face of mounting international scepticism and a growing global food crisis.

While part of the conference is open to the public, the final two days will take place behind closed doors, where Brazil and other governments are expected to try and iron out some of the technical and political differences still standing in the way of the international expansion of agrofuels.

Outside the conference, civil society organisations, farmers' groups and social movements from all over Brazil will gather to publicly denounce the Brazilian agenda and to call for a stop to the exploitation of labour and environmental resources brought by the progressive expansion of agrofuels promoted by Brazil and its agrofuel industry.

This article looks at the ways in which the Brazilian government and the agrofuel industry have pursued this goal and the role that European Member States have played in helping Brazil achieve its mission. The article pays particular attention to the cooperation agreements between Brazil and European governments in exploiting developing countries' land and resources to enable Brazil to increase its agrofuel export production and European governments access cheaper energy imports.

The article supports the call on EU decision-makers not to endorse measures intended to encourage a further expansion of agrofuels being discussed at the International Conference on Biofuels and to remove any incentives for agrofuel use in Europe.

## **Brazil drives the international expansion of agrofuels**

Over the last couple of years, the Brazilian government has been very much in the driving seat of the international promotion of agrofuels, both on a political and technical level.

In early 2007, under the auspices of the UN and with support from China, India, South Africa, the United States, and the European Commission (EC), Brazil launched the **International Biofuels Forum (IBF)**. Acting as a political platform, the IBF enables agrofuel producing countries to cooperate towards a) the creation of a world market for agrofuels and, b) to channel international investment towards countries with a potential to develop an export oriented production of agrofuels.

On a more technical level, Brazil has also been cooperating since 2007 with the EC and the US towards the harmonisation of technical standards in the refinement of agrofuels via a dedicated **Biofuels Standards Roadmap** – see box 1.

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<sup>1</sup> <http://www.biofuels2008.mre.gov.br/>

Despite these efforts however, tensions between cooperating parties are still to be found over the key steps needed for an international expansion of agrofuels. The issue of high import tariffs on ethanol is still at the heart of the debate between the EU, US and Brazil, and the development of sustainability criteria – aimed at repairing the public image of agrofuels following evidence of their environmental and social impacts – is also proving challenging.

### **Box 1** **No substantial technical barriers to Brazilian imports**

Variations in technical standards applied to the refinement of agrofuels represents a technical barrier to the international trade of agrofuels, as imports might not always be compatible with national requirements (i.e. water content affecting combustion).

As a result, and since early 2007, Brazil, the European Commission (EC) and the US have taken the lead in developing common standards on the technical refinement of biodiesel and ethanol. Following the launch of the IBF, the American National Standards Institute (ANSI-BSP), whose members include major corporations and lobby groups with strong interest in the fuel commodity (such as Exxon Mobil, Ford, Monsanto and the European-American Business Council)<sup>2,3</sup> set-up a **Biofuels Standards Roadmap** (BSR) aimed at promoting and facilitating the international harmonisation of such standards.<sup>4</sup>

According to the findings produced by the BSR, while the harmonisation of biodiesel will prove challenging as a result of great variations between countries in the refining of agrofuels, variations in the refinement of ethanol appear to be less acute. Moreover, as acknowledged by the BSR, the bulk of the ethanol exports will come from Brazil, where most of the specifications are already compatible with those required by Europe, for example. From a technical point of view therefore there are no substantial technical barriers to the import of Brazilian ethanol into the European market.

### **Brazil targets EU import tariffs as a barrier to its profits**

Against a backdrop of fluctuating oil prices and concerns about energy security, the opportunity for profit and growth in the agrofuels' sector looks very promising to Brazil and other agrofuel investors. Although oil still accounts for more than 96% of transport fuel use, agrofuel production has grown exponentially in recent years. Ethanol production doubled between 2000 and 2005, whilst biodiesel production increased fourfold (although ethanol still represents 90% of global agrofuel production).<sup>5</sup> In contrast, oil production increased by just 7% over the same period.<sup>6</sup> Given these trends, investors

predict that agrofuels could account for 10% of the world's total fuel market by 2017, with production shifting from a current domestic focus (90% of agrofuels are in fact consumed domestically) to a more export-oriented production.<sup>7</sup>

Brazil produced 16 billion litres of sugar-based ethanol produced in 2006, and with plans to triple

<sup>2</sup> ANSI. Biofuels Standards Coordination Panel. <http://publicaa.ansi.org/sites/apdl/Documents/Meetings%20and%20Events/ANSI%20Biofuels%20Standards%20Panel/ANSI-BSP-Member-Roster.pdf>

<sup>3</sup> BSR. White Paper On Internationally Compatible Biofuel Standards Tripartite Task Force Brazil, European Union & United States Of America. December 31 2007.

<sup>4</sup> Ibid.

<sup>5</sup> Business Insights. "The Biofuels Market Outlook Market drivers, growth opportunities and regulatory change." New Energy Report. October 2007.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

production by 2016, it is determined to cement its position as the world's main ethanol supplier.<sup>8</sup> In 2006, the ethanol industry was worth \$ 6 billion to the Brazilian economy and the figure is set to quadruple by 2015. Ethanol looks set to become Brazil's top export, overtaking even soy, with more than one ethanol production plant a month due to open between now and 2012, and massive foreign investment pouring into the country (see Box 2).<sup>9</sup>

Key in catalysing Brazil's interest in the international expansion of agrofuels have been the targets set by the EU's Renewable Energy Directive proposing an increase in agrofuel use in European transport from the current indicative target of 5.75% for 2010, to an obligatory 10% by 2020. Given that Europe's domestic agrofuel production – biodiesel produced from rapeseed oil and bioethanol produced from beet sugar – meets just 3% of its energy demand,<sup>10</sup> Brazil is keen to see its exports fill the gap in the European energy market.

However, acting as a barrier to Brazilian exports to Europe are the current high import-tariffs applied by the EU. High oil prices have made Brazilian ethanol increasingly competitive in the EU, but import tariffs resulted in a 60% increase in ethanol price in 2007.<sup>11</sup>

This is due to the fact that the World Trade Organisation (WTO) classifies ethanol as an agricultural good and, as such, allows governments to apply high import tariffs. At the recent WTO negotiations in Geneva in July 2008 Brazil proposed listing all agrofuels as “environmental goods”.<sup>12</sup> This would automatically grant Brazilian ethanol a reduction in import tariffs internationally, and hence easier access to the European market.<sup>13</sup>

The EU rejected Brazil's proposal and suggested instead the introduction of a quota system that would limit even further the scope of Brazilian exports to Europe.<sup>14</sup> The result was an inevitable clash between Brazil and the EU and, while negotiations continue, high import tariffs still apply to Brazil's exports.<sup>15</sup>

## **Box 2**

### **International investors target Brazil's booming agrofuels industry**

Brazil's agrofuel industry has boomed in recent years as domestic producers have expanded production to exploit the growing international demand for agrofuels.

Brazil's Union of the Sugar Cane Industry (UNICA) and state-owned energy companies Copel and Petrobras are already developing plans to construct more than 1,000 km of pipeline by 2015 at an

<sup>8</sup> Renewable Fuels Association. “Industry Statistics: Annual World Ethanol Production by Country”.

<http://www.ethanolrfa.org/industry/statistics/#E>

<sup>9</sup> Lloyd's list. Global Demand for biodiesel/ethanol. 13 August 2007. <http://www.intertanko.com/templates/Page.aspx?id=42544>

<sup>10</sup> <http://www.euractiv.com/en/trade/biofuels-trade-sustainability/article-171834>

<sup>11</sup> <http://www.ipsnews.net/news.asp?idnews=39416>

<sup>12</sup> The International Herald Tribune. “Brazil presses US, EU to include ethanol in any WTO trade pact.” 28 July 2008.

<http://www.iht.com/articles/ap/2008/07/28/business/EU-WTO-Ethanol.php>

<sup>13</sup> Doha Declaration Para 31 (iii) states: “*reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.*”

<sup>14</sup> The International Herald Tribune. “Brazil presses US, EU to include ethanol in any WTO trade pact.” 28 July 2008.

<http://www.iht.com/articles/ap/2008/07/28/business/EU-WTO-Ethanol.php>

<sup>15</sup> EurActiv. “EU-US ‘green’ trade plan comes under fire at Bali.” 10 December 2007.

<http://www.euractiv.com/en/trade/eu-us-green-trade-plan-comes-fire-bali/article-168985>

estimated cost of \$3 bn to facilitate exports.<sup>16</sup> Petrobras alone is investing \$30 m in new storage tanks, and the port of Paranagua, from where most of the ethanol will be exported, is investing \$7.4bn in expanding its export terminal.<sup>17</sup>

Foreign direct investment has played a major role in promoting the expansion of biofuels in Brazil. In July 2008, the Inter-American Development Bank (IDB) approved a loan of \$269 million and promised to help raise an additional \$379 million for the construction of three new ethanol plants in southern central Brazil. Whilst the plants are being developed in partnership with major Western investors, such as US private equity firms Carlyle and Goldman Sachs, and the Dutch agro-business giant Global Foods, French financial group BNP Paribas will help the IDB raise the additional \$379 million.<sup>18</sup>

As mergers and acquisitions lead by foreign investors are also targeting the Brazilian agrofuel industry – Spanish renewable energy and construction firm Abengoa recently purchased the Brazilian Grupo Dedini for €216 million –<sup>19</sup> Brazil appears to have become an all time favourite of international agrofuel investors.<sup>20</sup>

### EU split over import tariffs controversy

While the EU may have set itself ambitious targets for agrofuel use, member states have not necessarily agreed on opening up the European market to imports. Former EU Trade Commissioner Peter Mandelson was a keen supporter of Brazilian imports and felt that Europe “*should be open to accepting that it will import a large part of [its] biofuel resources,*” and that it “*should certainly not contemplate favouring EU production of biofuels...*”<sup>21</sup> However, while EU ethanol-importing countries such as Sweden and the Netherlands have been eager to lower import tariffs to encourage cheaper Brazilian imports into Europe, ethanol-producing countries within the EU are keen to limit imports to protect their domestic producers – a position very much supported Robert Vierhout, secretary general of the European Bioethanol Fuel Association who explained that “*Brazilian imports would wipe away the entire European production.*”<sup>22</sup>

Although the European agrofuels’ market is predominantly for biodiesel (80%) – with approximately 120 plants located in Germany, France and Italy producing up to 6 million tonnes of biodiesel annually and accounting for 90% of global production<sup>23</sup> - ethanol production from beet sugar has also risen significantly in recent years (over 70% between 2005-2006)<sup>24</sup> and is expected to become a €20 bn market by 2010.<sup>25</sup>

It is understandable therefore that European ethanol-producing countries are keen to protect and promote their domestic producers by means of high import tariffs and financial support mechanisms, such as tax incentives and subsidies (in 2007 European farmers received €1.476bn in agrofuels subsidies via the Common Agricultural Policy (CAP), while the agrofuels’ processing industry received €3.360bn).<sup>26</sup>

<sup>16</sup> [http://bettersugarcane.org/newsletter/?page\\_id=27](http://bettersugarcane.org/newsletter/?page_id=27)

<sup>17</sup> Ibid.

<sup>18</sup> <http://www.iadb.org/NEWS/articledetail.cfm?language=English&ARTID=4696>

<sup>19</sup> Lloyd’s list. “Global Demand for biodiesel/ethanol”. 13 August 2007. <http://www.intertanko.com/templates/Page.aspx?id=42544>

<sup>20</sup> [http://bioenergy.checkbiotech.org/news/2008-1007/Brazil\\_overtakes\\_US\\_as\\_top\\_destination\\_for\\_investment\\_in\\_biofuels/](http://bioenergy.checkbiotech.org/news/2008-1007/Brazil_overtakes_US_as_top_destination_for_investment_in_biofuels/)

<sup>21</sup> <http://www.ft.com/cms/s/0/c0c95512-2b32-11dc-85f9-000b5df10621.html>

<sup>22</sup> Dow Jones Newswires. “Brazil Ethanol Group Unica Opposes EU Quota Proposal.” 26 July 2008.

<sup>23</sup> European Biodiesel Board (EBB). <http://www.ebb-eu.org/biodiesel.php>

<sup>24</sup> <http://www.ebio.org/EUmarket.php>

<sup>25</sup> Business Insights. “The Biofuels Market Outlook Market drivers, growth opportunities and regulatory change.” New Energy Report. October 2007.

<sup>26</sup> Jacques Berthelot. Technical annex on the calculation of EU biofuels subsidies in 2006 and 2020. 2 September 2008.

Importing countries however are eager to access Brazil's ethanol and have been supportive of Brazil's call for a reduction of Europe's import tariffs.<sup>27</sup> With 800 million litres of ethanol consumed per year, Sweden would clearly benefit from cheaper Brazilian imports into Europe<sup>28</sup>. The Netherlands, which invested \$8.1 bn in the Brazilian economy in 2007,<sup>29</sup> is also keen to exploit the potential for Brazilian ethanol exports into Europe, particularly as most of these would enter the EU via the Dutch port of Rotterdam<sup>30</sup>.

But with no agreement on an EU-wide reduction on ethanol import tariffs, Brazil has pursued a different strategy to access the EU market. By signing "cooperation agreements" with individual EU member states on a bilateral basis, Brazil has been able to accommodate the individual needs of importing countries and ensure, one way or another, access for its ethanol exports to the European market.

### **Bilateral agreements open the door to Brazilian imports to Europe**

Since early 2007 Brazil has signed bilateral cooperation agreements on agrofuels development with Sweden, the Netherlands, Germany, Denmark, UK, France, and Italy.

These agreements typically entail a commitment by both parties to promote the international expansion of agrofuels via a set of policy tools, including cooperation on research and development (R&D) programmes – aimed for instance at improving the efficiency and sustainability of agrofuels; the identification of suitable partner countries in the South, where agrofuel production could be encouraged; and the promotion of international private investment – between the two countries and towards the Southern partner.

To understand the basis of these agreements, it is important to recognise that the EU does not have sufficient land to be self-sufficient in agrofuel production. It is inevitable that either the feedstock for processing, or the fuel itself, is imported. There is a simultaneous desire however to protect European domestic production from excessive imports and, for these reasons, European countries are juggling the interests of European farmers, energy producers and energy suppliers in an attempt to strike a balance between protecting domestic production and allowing imports to satisfy its energy demand.

The bilateral agreements signed between Brazil and EU member states are not legally binding, and the extent to which they have been implemented varies from country to country according to the national interests at hand. In the case of the UK and France, much of the cooperation has focused on research and development activities, whilst in the case of Sweden, the government has agreed to eliminate its import tax on ethanol as a way of favouring Brazilian imports into the country (and consequently into the EU, given that Swedish energy suppliers distribute ethanol also to energy companies operating outside of Sweden).<sup>31</sup> The Swedish government has also pledged to cooperate on activities spanning from the funding of feasibility studies aimed at identifying developing countries suitable for agrofuels production, to financing task forces in these countries with the objective of encouraging the development of an export-oriented agrofuel production via foreign direct investment.<sup>32</sup>

Regardless of the level of commitment to cooperation, the success of these agreements has been to foster the creation of a favourable political environment that backs and encourages international investors to

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<sup>27</sup> [http://bioenergy.checkbiotech.org/news/2007-05-18/Sweden\\_reportedly\\_to\\_pressure\\_EU\\_to\\_eliminate\\_tariff\\_on\\_Brazilian\\_ethanol/](http://bioenergy.checkbiotech.org/news/2007-05-18/Sweden_reportedly_to_pressure_EU_to_eliminate_tariff_on_Brazilian_ethanol/)

<sup>28</sup> <http://ethanol-business.com/2007/09/12/sweden-brazil-sign-biofuels-deal-during-lula-visit/>

<sup>29</sup> <http://www.nuffic.nl/home/news-events/news-archive/news-archive-2008/april/the-netherlands-and-brazil-sign-agreement-for-education-cooperation>

<sup>30</sup> <http://www.iht.com/articles/ap/2008/04/11/europe/EU-GEN-Netherlands-Brazil.php>

<sup>31</sup> <http://www.sweden.gov.se/sb/d/10165/a/96322>

<sup>32</sup> Sekab. "Ethanol production in Africa". <http://www.sekab.com/default.asp?id=2235&refid=2234>  
Oxfam. "The Agrofuel Industry in Tanzania: a critical enquiry into challenges and opportunities". July 2008. [http://coet.udsm.ac.tz/biofuel%20documents/July08%20-%20\(Oxfam\)%20BIOFUELS.doc](http://coet.udsm.ac.tz/biofuel%20documents/July08%20-%20(Oxfam)%20BIOFUELS.doc).

operate in pursuit of an expanding and profitable agrofuel market.

### **European capital fuelling agrofuel development in Brazil**

European energy companies have not wasted time in taking advantage of the favourable political climate to invest in Brazil's expanding agrofuel industry. A number of European businesses have signed exclusive commercial agreements with Brazilian companies to secure access to Brazil's cheap raw materials while guaranteeing Brazilian agrofuel producers access to the European market.

After Brazil signed an agreement with Sweden, Swedish top ethanol importer Sekab set up a partnership with several Brazilian ethanol producers aimed at supplying the Swedish energy market.<sup>33</sup> As Sweden proceeds to temporarily eliminate its import tax on ethanol, as part of its agreement with Brazil, the commercial partnership between Sekab and its Brazilian counterparts will guarantee Sweden access to cheaper ethanol imports, whilst securing Brazil reliable access to the Swedish market.<sup>34</sup>

A similar partnership was also forged between the Dutch firm BioFuel Projects International B.V. and the Brazilian company Plant.a.Bio, following the Brazilian-Dutch cooperation agreement.<sup>35</sup> In this case, cooperation centres on the development and management of commercial-scale jatropha plantations in Brazil, where Plant.a.Bio will be responsible for providing BioFuel Projects International with feedstock to be distributed across Europe.<sup>36</sup>

The cooperation agreement between Brazil and Italy foresees Italian energy suppliers financing the construction of four biodiesel plants in Brazil. Aimed at supplying the Italian energy market, this cooperation illustrates also how FDI is helping Brazil build an export capacity also in relation to biodiesel (as opposed to just ethanol).

European FDI into Brazil represents a key element of the bilateral cooperation agreements between Brazil and European governments. While on the one hand Brazil obtains access to the EU market, European companies benefit from access to cheap raw materials and energy supplies. However, Brazil alone will never be able to supply Europe with enough biodiesel and ethanol to meet Europe's growing energy demands. Access to land in third countries will become indispensable to Brazil's exports. It is therefore within this perspective of self-interest that Brazilian President Inació Lula da Silva called on developing countries to "join the biofuels revolution" should be understood.

### **"South-North-South" cooperation: Brazil's colonisation of the Global South**

According to UNICA, the Brazilian Sugarcane Industry Association representing Brazil's top sugar and ethanol producers, 110 developing countries have the potential to become agrofuel producers, and these countries should be the target for Brazil's cooperation agreements with partnering countries.<sup>37</sup> Feasibility studies aimed at identifying the agrofuel potential of developing countries are being conducted as part of the bilateral cooperation agreements between Brazil and its partners, typically via funds allocated by the partnering government.<sup>38</sup>

The expansion of agrofuel production in developing countries is being promoted both by Brazil and its

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<sup>33</sup> <http://english.unica.com.br/opiniao/show.asp?msgCode=4BA95117-437D-4D0C-BA61-0E18E2D0033B>

<sup>34</sup> [http://findarticles.com/p/articles/mi\\_m4PRN/is\\_2008\\_July\\_18/ai\\_n27927829](http://findarticles.com/p/articles/mi_m4PRN/is_2008_July_18/ai_n27927829)

<sup>35</sup> <http://www.biofuelprojects.com/PR20080417.htm>

<sup>36</sup> <http://www.biofuelprojects.com/PR20080417.htm>

<sup>37</sup> Brazil Institute. "BRAZIL–U.S. Biofuels Cooperation: One Year Later." Special Report. June 2008.

<http://www.wilsoncenter.org/topics/pubs/brazil.biofuels.wirec.pdf>

<sup>38</sup> Ibid.

European counterparts as a tool for development<sup>39</sup> despite the growing evidence that agrofuels compete with food crops and impact on people's right to food<sup>40</sup>. The rationale behind unlocking developing countries' agrofuels potential rests on the principle that countries with export potential should concentrate on exploiting this comparative advantage to develop an export-oriented industry that can supply countries unable to rely on domestic production.<sup>41</sup>

In its crudest form, this South-North-South cooperation entails the European partner bringing financial and technical resources to the table, the Brazilian counterpart contributing with scientific, agronomic and technological expertise, and the developing partner offering the investment opportunity.<sup>42</sup> The legal framework on which this partnership is built is provided by the historical cooperation agreements tying the partnering countries. In most cases, they involve former European colonies with whom the European partner has a long-standing history of cooperation and with whom Brazil recently stipulated a partnership – see Box 3.

For instance, the agreement between Italy and Brazil involves the Brazilian state-run oil company Petrobras and Italian energy firm Eni building a presence in Sub-Saharan Africa to export biofuels back to Italy. The main focus of the cooperation is the construction of ethanol and biodiesel plants in Mozambique and Angola (both of which Brazil and Italy have cooperation agreements with)<sup>43</sup> despite both African countries having been affected by a food crisis since the late 1980s.<sup>44</sup>

Similarly, the Swedish-Brazilian agreement foresees Swedish energy supplier Sekab and the Brazilian construction company Constran build an ethanol factory in Ghana that will refine feedstock grown on 400,000 hectares of newly acquired land by Sekab in Tanzania and Mozambique – both of which are primary recipients of Swedish government aid. It is in fact through aid funds that the Swedish government has co-financed the Tanzanian government's National Biofuels Task Force,<sup>45</sup> responsible for attracting foreign investment to expand ethanol production in Tanzania<sup>46</sup> - despite warnings from the UN Food and Agricultural Organisation (FAO) about Tanzania's "particular vulnerability" to the current global food crisis.<sup>47</sup>

As former EU colonies these African countries benefit from lower import tariffs into Europe, allowing Brazil (and European investors) to circumnavigate the tariff barrier affecting Brazilian imports into the EU – again, see Box 3. However, whether the promotion of agrofuel production in famine-stricken African countries via the deployment of aid funds can be considered a development objective is debatable.

### Box 3

<sup>39</sup> <http://www.project-syndicate.org/commentary/tolgfors>

<sup>40</sup> Eg [http://www.fao.org/righttofood/publi08/Right\\_to\\_Food\\_and\\_Biofuels.pdf](http://www.fao.org/righttofood/publi08/Right_to_Food_and_Biofuels.pdf) and [http://www.foeeurope.org/agrofuels/resources/agrofuels\\_toolkit/WB\\_note\\_rising\\_foodprices\\_mitchell-1.pdf](http://www.foeeurope.org/agrofuels/resources/agrofuels_toolkit/WB_note_rising_foodprices_mitchell-1.pdf)

<sup>41</sup> <http://biopact.com/2006/12/europe-to-cooperate-with-brazil-to.html>

<sup>42</sup> <http://biopact.com/2007/03/italy-and-brazil-to-join-biofuel.html>

<sup>43</sup> Ibid.

<sup>44</sup> See MSF's report on Angola "Slow response to Angola's food crisis"

<http://msf.openrepository.com/msf/handle/10144/18259>;

and the UN-Mozambique website for an account of Mozambique's current food crisis:

<http://www.unmozambique.org/>

<sup>45</sup> Sekab. "Ethanol production in Africa". <http://www.sekab.com/default.asp?id=2235&refid=2234>  
Oxfam. "The Agrofuel Industry in Tanzania: a critical enquiry into challenges and opportunities". July 2008.

[http://coet.udsm.ac.tz/biofuel%20documents/July08%20-%20\(Oxfam\)%20BIOFUELS.doc](http://coet.udsm.ac.tz/biofuel%20documents/July08%20-%20(Oxfam)%20BIOFUELS.doc).

<sup>46</sup> [http://www.zjfdi.com/UploadFiles/aaf001200751195949\\_2.pdf](http://www.zjfdi.com/UploadFiles/aaf001200751195949_2.pdf)

<sup>47</sup> <http://edition.cnn.com/2008/WORLD/europe/05/28/food.crisis.ap/index.html>

## ACP countries become prime targets of Euro-Brazilian investment

Despite the pressing food crisis, African, Caribbean and Pacific (ACP) countries have become a favourite target for the so-called south-north-south cooperation format. As former European colonies, ACP countries benefit from preferential market access to the EU and, as such, ethanol or feedstock produced in ACP countries can benefit from lower import tariffs into Europe – hence enabling European and Brazilian investors to avoid the import tariff applied to Brazilian ethanol.

For many ACP countries, the 2006 sugar reforms imposed by the EU – which were ironically the result of pressure exerted by Brazil in the WTO to liberalise the sugar trade and remove the quota system that privileged ACP countries' sugar exports to Europe – have meant that the sugar industry in ACP countries is now turning towards energy production as a way to survive and prevent closure.<sup>48</sup>

With so many developing countries offering investment opportunities to make use of their land and labour for agrofuel development, over the past two years Brazilian President Lula has been busy signing cooperation agreements with ACP countries aimed at paving the way for agrofuel investment in the region. Agreements have been signed so far with the Dominican Republic<sup>49</sup> and Jamaica<sup>50</sup> in the Caribbean; with Senegal, Nigeria and Sudan in West Africa,<sup>51</sup> and with Indonesia and Malaysia in the Pacific.<sup>52</sup>

Moreover, a dedicated African unit of Brazil's Empresa Brasileira de Pesquisa Agrícola (EmBraPA) was also set up in Ghana in 2007 to guide and coordinate international investment flowing into the African continent.<sup>53</sup> EmBraPA has in fact become the main agent through which international financial investors and governments cooperate on agrofuel projects in Africa, with projects already being launched in Morocco, Libya, Tunisia, Ghana, Mozambique, Benin, Kenya, Togo and Angola as a result of EmBraPA's leadership.<sup>54</sup>

These tri-partite agreements between Brazil, European governments and developing countries have created a regulatory framework through which international capital can now move freely with Brazil very much in the driving seat of this international expansion of agrofuels in the developing world.

## Brazil's battle against agrofuel sceptics

Despite the enthusiasm regarding agrofuels, recent reports about their social and environmental impacts have raised serious doubts amongst European consumers, the media and politicians about the sustainability claims of agrofuels. A number of reports have pointed to agrofuels as major culprits in the recent international food crisis – by competing with food crops for land and resources – and others have shown how agrofuel expansion will lead to increased carbon emissions rather than a reduction – therefore proving detrimental to the environment, rather than beneficial.

Faced with mounting public scepticism, a number of EU Member States are now reconsidering their

<sup>48</sup> Biofuels – S&T Strategic Options for ACP Countries. Maureen Wilson.  
<http://knowledge.cta.int/en/content/view/full/4408>

<sup>49</sup> <http://www.dominicantoday.com/dr/economy/2007/6/21/24386/Brazil-Dominican-Republic-seal-biofuel-pact-bolster-trade-ties>

<sup>50</sup> [http://www.jis.gov.jm/special\\_sections/brazil/bilateralRelations.pdf](http://www.jis.gov.jm/special_sections/brazil/bilateralRelations.pdf)

<sup>51</sup> <http://biopact.com/2007/03/brazil-in-africa-south-south.html>

<sup>52</sup> [Lula and Indonesian president pledge biofuel cooperation, Associated Press, Jul 11 2008.](#)

<sup>53</sup> [Brazil in Africa: South-South cooperation on bioenergy speeding up, Biopact website, March 13, 2007.](#)

<sup>54</sup> Ibid.



national targets on agrofuels, with France<sup>55</sup> and the UK<sup>56</sup> already carrying out reviews. This has also triggered discussion about the need to develop “sustainability criteria” aimed at improving the public image of agrofuels – see Box 4.

The Environment and Industry Committees of the European Parliament (EP) have proposed reviewing the 10% target and have called for an intermediate 4-5% target by 2015 – and review at this date the feasibility of attaining a 10% target by 2020.<sup>57</sup> The Industry Committee (ITRE) is also proposing to raise the benchmarks relative to the sustainability criteria, particularly in relation to human rights, land use and carbon emissions, which could limit considerably the exports of many agrofuel-producing countries to Europe.<sup>58</sup>

Such reviews could cause serious damage to agrofuel producers and investors, leading the Brazilian government and agrofuel industry to embark on a promotional tour across Europe in an attempt to revamp the image of Brazilian ethanol. Reassuring the public and the consumers of the social and environmental sustainability of agrofuels has become a key challenge for Brazil and agrofuel investors.

Lula himself made the sustainability of Brazilian ethanol the core message of his interventions both at the 2007 G8 summit in Germany<sup>59</sup> and the 2008 UN General Assembly in New York,<sup>60</sup> whilst a dedicated Department of Energy has been set up within the Brazilian Ministry of External Relations with the task of promoting the image of Brazilian agrofuels internationally.

With support from major energy corporations such as Shell, which holds strong strategic and financial interests in the development of the agrofuel market, the appointed Brazilian energy minister and representatives of UNICA recently engaged in a diplomatic road show across European capitals with a view to “demystify” the unsustainable image of Brazilian agrofuel production.<sup>61</sup>

UNICA has also been lobbying actively in Brussels to ensure that Europe’s political commitment to the expansion of its agrofuel market is not weakened. UNICA’s aims to persuade European decision-makers to persuade them that Brazilian ethanol is a clean, renewable source of energy,<sup>62</sup> despite accounts denouncing slave-like working conditions in Brazil’s sugarcane plantations;<sup>63</sup> water pollution caused by intensive sugarcane farming;<sup>64</sup> the deforestation of the Amazon resulting from the expansion of the agricultural frontier (with expanding sugarcane plantations soy production is being pushed to the Amazon),<sup>65</sup> not to mention the cases of land grabbing by agrofuel investors in developing countries;<sup>66</sup> and the effects that crop

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<sup>55</sup> [France to review biofuel use on environment worries](#), Reuters, January 29 2008.

<sup>56</sup> [Use of biofuels under review](#), UK Government, 22 April 2008.

<sup>57</sup> [MEPs urge EU to cut biofuel target](#), Zoë Casey, *European Voice*, 8 July 2008.

<sup>58</sup> [EU Biofuels Policy – The Current State of the Debate](#), *Biofuelwatch*, 23 September 2008

<sup>59</sup> [Lula calls for ethanol investment](#), *BBC News*, Monday, 4 June 2007.

<sup>60</sup> [Brazilian president to defend biofuels at UN General Assembly](#), *Peoples Daily Online*, September 19 2008.

<sup>61</sup> Welcome speech by Rob Wilpink, Advisory Board Dutch Brazilian Chamber of Commerce at the “Strategic Conference Brazil: EU sustainability requirements: a challenge for Brazilian ethanol?”. 6th of October 2008.

<sup>62</sup> [APEX-Brazil and UNICA invest to promote Brazilian ethanol](#), UNICA website, last accessed 13 November 2008.

<sup>63</sup> [Biofuel industry hires workers under slave-like conditions and damages the environment](#), *Latin American Press*, 8 July 2008.

<sup>64</sup> [Agrocombustibles y derecho a la alimentación en América Latina. Realidad y amenazas](#), Sofia Monsalve et al., Published by Transnational Institute (TNI) and FIAN International, Amsterdam, The Netherlands, 26 May 2008.

<sup>65</sup> *Ibid.*

<sup>66</sup> [Biofuel land grabbing in Northern Ghana](#), Bakari Nyari, The Gaia Foundation, no date.

conversion is causing on international food prices<sup>67</sup> and people's right to food.<sup>68</sup>

In view of the Parliament's plenary vote in December 2008, UNICA has also been regularly placing full-page advertisements in Brussels' media under the banner that "You can help fight climate change by supporting a mandatory 10% target for renewables in transport by 2020."<sup>69</sup>

The Brazilian permanent representation office to the EU has also been actively lobbying EU decision makers in Brussels. In May and November 2008 it orchestrated letters signed by other agrofuel-producing developing countries and addressed to Members of the European Parliament (EP) and the Council to make a case against the reduction of the 10% target and the introduction of sustainability criteria.<sup>70</sup> A series of meetings have also been organised in Brussels by the Brazilian representation with EU country offices and members of the EP with this purpose. In these lobby meetings the Brazilian government has made it clear that standards and criteria that go beyond those originally set in the EC's Communication on Renewable Energy are dropped – such as those suggested by the European Parliament's ITRE Committee – Brazil and other agrofuel exporting countries have made it known that they will initiate a legal challenge against the EU within the WTO.<sup>71</sup>

#### **Box 4** **The EU "sustainability" scam: leave it up to industry**

At the European level, a special *ad hoc* working group within the European Council of Ministers was set up at the end of February 2008 with the aim of drafting "core criteria" for the sustainable production of agrofuels destined for the European market.<sup>72</sup> A first draft was released on 3<sup>rd</sup> September and, although the draft identifies the need for agrofuels to follow environmental and social standards – such as the reduction of CO<sub>2</sub> and greenhouse gas emissions, as well as the need for them not to be sourced from protected natural areas or to be produced in violation of labour or human rights –<sup>73</sup> the weakness of the reporting and monitoring mechanisms outlined in the draft suggest that the main objective is not the sustainability of agrofuels, but the legitimisation of their international trade and the creation of sufficient flexibility within the system to allow European member states to select suppliers according to their national interests.

The draft proposes that, if EU member states need to report regularly to the European Commission on whether or not suppliers comply with these sustainability criteria, the onus of providing proof will rest however with the suppliers alone. Suppliers may choose moreover to use self-certification mechanisms that the individual Member State will be responsible for accepting or rejecting as compatible with the

<sup>67</sup> [Secret report: biofuel caused food crisis - Internal World Bank study delivers blow to plant energy drive](#), Aditya Chakraborty, *The Guardian*, July 3 2008.

<sup>68</sup> [Bread and Butter Solutions - Addressing the food crisis from a European perspective](#), Kim Bizzarri, ActionAid international, October 2008.

<sup>69</sup> See for instance *The European Voice*, 18th September 2008, p. 5.

<sup>70</sup> [Open Letter to the Council, Parliament and Commission of the European Communities](#), 6 November 2008.

<sup>71</sup> Personal communication with Marco Cabral, Head of Environment, Energy and Services Sectors for the Mission of Brazil to the European Union, 23 October 2008.

<sup>72</sup> The creation of the working group followed the EU Council decision of 22 February that biofuel sustainability standards should be included in a revised version of the EU's 1998 Fuel Quality Directive, which relates to the transport use of petrol, diesel and gas oil and the reduction of CO<sub>2</sub> emissions either by enhancing supply efficiency or increasing the proportion of biofuel included in fuels.

<sup>73</sup> [Draft sustainability criteria for biofuels](#), Proposal by the French Presidency, 29 August 2008.  
[Deal Negotiated on Sustainability Criteria for Biofuels](#), Council, Friday, 05 September 2008.

sustainability criteria set at EU level.<sup>74</sup> This would effectively allow the industry to self-regulate – an approach actively pursued by the industry.

Set up in early 2007, the Roundtable on Sustainable Biofuels (RSB) has promoted itself as the leading forum in the sustainability debate. However, its membership includes some of the corporations with major stakes in the agrofuel debate: from oil giants Shell and BP, the federation of Swiss oil companies and Brazilian oil company Petrobras, to Brazil's sugarcane industry association UNICA, car manufacturer Toyota and leading agribusiness company Bunge – responsible for handling much of the Brazilian ethanol imports into the EU.<sup>75</sup>

With a comprehensive matrix of “*Global principles and criteria for sustainable biofuels production*” released in August 2008, the RSB is now busy promoting the industry's voluntary scheme via a series of high-level meetings with stakeholders and decision-makers in Europe and abroad.<sup>76</sup>

If successful, what we might see is a proliferation of self-certification systems similar to the one pioneered by Swedish ethanol supplier Sekab – with support from the RSB and in partnership with its Brazilian producers – whereby the sustainability of imported agrofuels into Europe will rest on the word of the industry and weak government monitoring mechanisms.

### **The call for a halt to the expansion of agrofuels**

There appears to be no limit to what Brazil will do to ensure penetration of the European agrofuel market, be it the challenging of EU regulation via the WTO dispute settlement mechanism, the signing of bilateral deals with individual EU member states, or the exploitation of former EU colonies to bypass the Union's custom barriers. Brazil appears to be determined to drive the expansion of agrofuels internationally whatever the price, making use of all available tools to ensure that obstacles along the way are overcome and removed one way or another.

The upcoming International Biofuels Conference will aim to make an important step in the progressive expansion of agrofuels internationally. As well as representing an extraordinary PR exercise on Brazil's account, it will offer Brazil the opportunity to iron out technical and political differences currently standing in the way of the international expansion of its agrofuel exports. The issue of import tariffs, as well as the sustainability question of agrofuel production will be central to the conference's agenda and to informal talks in the conference corridors. However, outside the conference dissenting voices from social groups and farmer organisations from all over Brazil will call for a halt to the expansion of agrofuels, a call already echoed by farmers and social movements in Africa and the US. As European groups join this global cry, it will be up to EU decision-makers to decide on which side of the fence they wish to stand: will they choose to go ahead with the relentless expansion of agrofuels in defiance of growing public opposition, or will they seize this opportunity to reconsider national targets and incentives for the promotion of more sustainable alternatives to agrofuels?

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<sup>74</sup> [Draft sustainability criteria for biofuels](#), Proposal by the French Presidency, 29 August 2008, Art. 16.

<sup>75</sup> [Roundtable on Sustainable Biofuels Announces Inaugural Steering Board](#), website of the Roundtable on Sustainable Agrofuels, last accessed 13 November 2008

<sup>76</sup> [Roundtable on Sustainable Biofuels, article on bioenergywiki, last accessed 13 November 2008](#)