**Record season for ethanol supply in South-Central Brazil unlikely to be repeated**

**São Paulo, December 17, 2013 –** Through December 1st, mills in Brazil's South-Central region met the expectation of a record ethanol supply for Brazil's domestic market in the 2013/2014 season. The expanded supply was sufficient to cover the rapid growth in Brazilian fuel demand for light vehicles, but that feat will be difficult to repeat in the future, given rising demand.

According to UNICA CEO Elizabeth Farina, the growth in production registered this season, in a period when producers are not seeing profits, side by side with an improvement in the sector's performance in terms of volume and productivity, appears counter-intuitive but is a reflection of the enormous effort that has been made to reduce idle capacity. "The search for cost reductions and the optimization of existing mills is what explains this season's significant growth in production," Farina said.

Numbers gathered up to the start of December reveal a growth in the crush this season of nearly 60 million tons of sugarcane, with that incremental crush directed almost exclusively to boosting ethanol production. From the start of the season through December 1st, ethanol production increased by 18.97% while sugar production rose by just 0.66%.

The numbers confirm the projection made by UNICA at the start of October, which pointed to a rise in ethanol production of 3.68 billion liters this season, with total production reaching 25.04 billion liters compared to 21.36 billion liters in 2012/2013. In addition to increased production, the ethanol supply for Brazil's domestic market also benefited from reduced exports, which are expected to total around 2.61 billion liters in 2013, or around 850 million liters less than the 3.46 billion liters exported from the South-Central region during the 2012/2013 harvest.

Putting together the rise in production and the drop in exports, the increase in total ethanol supply for the domestic market should reach around 4.53 billion liters this season. This is a record, surpassing increases registered in 2007/2008 (4.45 billion liters) and 2008/2009 (3.62 billion liters), a period during which more than 50 new mills were launched – 25 in 2007/2008 and 30 in 2008/2009.

Farina said that several factors explain this season's growth in ethanol production: "Increased demand stemming from the return to a 25% blend of anhydrous ethanol in gasoline, the condition of oversupply in the global sugar market, and the potential for hydrous ethanol demand resulting from the huge flex-fuel vehicle fleet in Brazil, especially in states that give differentiated treatment to hydrous ethanol in applying the ICMS (state) tax."

UNICA Technical Director Antonio de Padua Rodrigues pointed out that the record growth in ethanol supply brought enormous benefits for the Brazilian light-fuels market: "In addition to meeting the extra demand for light fuels, the re-establishment of the anhydrous ethanol blend rate to 25% as of May of this year reduced the demand for pure gasoline and allowed Petrobras to raise its refining capacity by close to 10%, significantly reducing the need to import gasoline."

Padua added that, if ethanol production had not risen this year, gasoline imports would have grown by more than 70%. "Certainly we would have had more difficulty in handling the logistics of fuel distribution, in addition to trade-balance losses and a larger burden for Petrobras," Padua said. He added that, in the 2012/2013 season, gasoline imports reached 4.2 billion liters, creating a deficit of US$3.24 billion in Brazil's trade balance.

Prices gathered by the University of São Paulo's Center of Advanced Studies in Applied Economics (CEPEA) show that the revenues obtained by mills in São Paulo state from sugar and ethanol sales through November of this year were 9.21% lower than during the same period last year. During the period, revenues this year amounted to R$98.40 per ton of cane processed, versus R$108.38 per ton in 2012/2013. Compared to 2011/2012, when the value per ton of cane processed reached R$116.46, the average revenue this year through November is down by 15.51%.

The progressive drop in revenues observed over the last three seasons, together with the financial losses of firms in the sugarcane industry, have produced a worrisome situation, UNICA said. Last year, on average, mills dedicated close to 15% of their income to servicing debt, which translates to R$17 per ton of processed cane.

Farina pointed out that over the course of this year, government measures contributed to easing a situation that, at the start of the season, was even more negative for producers. "The lowering of the PIS/COFINS and IPI (federal industrialized products) tax burdens on sugar in the domestic market and of the PIS/COFINS tax on ethanol, the policies for financing the stockpiling of ethanol and the Prorenova program for cane field renovation, brought positive and timely benefits," Farina said. "Now, it's necessary to move forward with long-term measures that will allow companies to plan the future and resume investments to boost production."

Farina added that the growth in production witnessed this season is something that probably will not be repeated in the coming years. "In the current context, returns don't justify the construction of new units," Farina said. "Even if decisions to build new mills were made immediately, at least three years would be needed for the start-up of operations and another two years for them to operate at full capacity."