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Biofuels - Brazil Raises Federal Taxes and Blend Mandate

Report Categories:
Biofuels

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Report Highlights:
The long-awaited increase in the ethanol blend rate with gasoline from 25 to 27 percent became effective on March 16, 2015. This measure is expected to increase domestic consumption of ethanol by 1.2 billion liters. On February 1, the Government of Brazil increased federal taxes on gasoline (R$ 22 cents/liter) and diesel (R$ 15 cents/liter). As a consequence, ethanol prices which are closely linked to fossil fuel prices increased at the retail pump and will potentially provide increased revenue for the financially strapped sugarcane milling sector.

General Information

After many tests conducted by CENPES (Petrobras Research Center) and many meetings between the Brazilian Government (GOB), the automobile manufacturers and the ethanol industry, on March 16, the Ministry of Mines and Energy implemented an increase in the ethanol blend mandate for gasoline from 25 to 27 percent. Tests included several short and long term studies to determine the impact of the increased blend rate on gasoline engines.

The increase of the ethanol blend on gasoline is an old request from the ethanol industry which has been experiencing difficulties for the past five years. The Sugar and Alcohol Millers Association of São Paulo State (UNICA) estimates that the new blend should represent an additional domestic demand of 1.2 billion liters of ethanol and reports that stock levels are available to supply the extra volume. The new mandate applies only to regular gasoline. The percentage of ethanol for premium gasoline remains 25 percent.

Earlier this year, and in order to generate additional revenue to the federal government, Presidential Decree # 8,395 published at the Brazilian Official Gazette on January 29, 2015, authorized the increase of federal taxes on gasoline and diesel. The Brazilian Government increased the following federal taxes: CIDE (Contribution for Intervention in Economic Domain), PIS (Contribution to the Social Integration Program) and COFINS (Contribution for Financing Social Security).

As of February 1, the cumulative increase was R$ 22 cents/liter for gasoline and R$ 15 cents/liter for diesel. The increase is applied at the refinery and distributor level. Final pricing at retail is dependent upon gas station owners' margins.

The sugar-ethanol industry also welcomed the measure given that consumers' decisions are driven by the ratio between ethanol and gasoline prices. Therefore, the increase in gasoline prices allow an increase of ethanol prices. Note that the 70 percent ratio between ethanol and gasoline prices is the rule of thumb in determining whether flex car owners will choose to fill up with ethanol (price ratio below 70 percent) or gasoline (price ratio above 70 percent).

Indeed, average prices collected by the Petroleum, Natural Gas and Biofuels National Agency (ANP) for selected states before and after the implementation of the presidential decree, show that ethanol prices increased as a consequence of increased gasoline prices.

Gasoline and Ethanol Average Retail Prices (R$/liter)

State	Gasoline			Ethanol		
	Jan-15	**Feb-15**	**Price Difference**	**Jan-15**	**Feb-15**	**Price Difference**
Alagoas	3.065	3.311	0.246	2.503	2.558	0.055
Bahia	3.082	3.497	0.415	2.416	2.541	0.125
Federal District	3.173	3.475	0.302	2.48	2.594	0.114
Mato Grosso	3.102	3.334	0.232	1.985	2.127	0.142
Rio de Janeiro	3.214	3.453	0.239	2.500	2.662	0.162
Minas Gerais	3.025	3.304	0.279	2.198	2.363	0.165
Sao Paulo	2.918	3.15	0.232	1.935	2.101	0.166
Source: ANP						