

New Report: Sugarcane mills expansion drives economic growth forward in Brazilian municipalities

Climate Policy Initiative also indicates that this industry booming positively affected land use and decreased deforestation. See publication at <http://www.inputbrasil.org/projetos/os-impactos-da-expansao-cana-no-brasil/?lang=en>

Rio de Janeiro – Brazil’s sugarcane industry surged over the past decade. Between 2005 and 2012, sugarcane area increased 70% nationwide and production quadrupled in the Germany-sized State of Mato Grosso do Sul, a booming frontier for sugarcane. Nevertheless, despite being the world’s leading sugarcane producer and the second leading ethanol producer and exporter, little evidence has been collected about how the sugarcane mills affect the Brazilian rural communities where they move in.

A new [study](#) from Climate Policy Initiative (CPI) and PUC-Rio, under the Land Use Initiative (INPUT – *Iniciativa Para o Uso da Terra*), shows that **the expansion of sugarcane mills increased economic growth, influenced land use and reduced deforestation in Mato Grosso do Sul municipalities.**

The analysis indicates that the mills dramatically reshape the economic structure of the municipalities where they are located, particularly in rural areas. With the arrival of mills, **GDP increased 30% within three years due to widespread gains in agriculture (65%), industry (45%), and services (13%).** New mills also helped drive a 10% population spike and an increase of 31% in tax revenues.

The researchers also point out that **the mills induced a land use shift, mainly from pastures to sugarcane.** Demand for land to grow sugarcane increased due to the ethanol boom. Consequently, in the three years following the mills’ arrival, cattle herds fell by an average of 27,000 heads in the municipalities and ranching employment fell, too.

Additionally, three years after the arrival of the sugarcane mills, **municipalities saw a reduction in deforestation by 6.3 thousand hectares on average.** CPI researchers suggest this happened because the productivity gains might have decreased the demand for area expansion. Another probable reason is that the arrival of the mills might be followed by improved compliance and law enforcement – either because mills belong to big companies, with higher exposure to environmental scrutiny from investors and media or because those municipalities get more economic visibility.

“The Brazilian municipalities hosting the new sugarcane mills experienced great economic benefits due to private investments. This shows that the increasing world demand for sugarcane-based products stands to benefit not only these communities, but also the Brazilian economy as a whole,” says Juliano Assunção, director of CPI and professor in the Department of Economics at PUC-Rio.

Climate Policy Initiative (CPI) works to improve the most important energy and land use policies around the world, with a particular focus on finance. We support decision makers through in-depth analysis on what works and what does not. CPI's Brazil program - Núcleo de Avaliação de Políticas Climáticas - partners with the Pontifical Catholic University of Rio de Janeiro and focuses on a Production and Protection approach to land use.

The Land Use Initiative (INPUT) is a partnership between Climate Policy Initiative and Agroicone, and is funded by the Children's Investment Fund Foundation (CIFF). It brings together a team of specialists who work at the forefront of how to increase environmental protection and food production.

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