Q4 2011 Earnings Call

Company Participants

- Marcelo Martins, CFO, IRO
- Marcos Lutz, CEO

Other Participants

- Debbie Bobovnikova, Analyst
- Ivan Fernandes, Analyst
- Juan Raffetto, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan Limited and Cosan SA's Fourth Quarter of 2011 results conference call. Today with us we have Mr. Marcos Lutz, Cosan's CEO, Mr. Marcelo Martins, Cosan's CFO and Investor Relations Officer, and Felipe Jansen, Head of IR. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Cosan Limited and Cosan SA's remarks, there will be a question-and-answer session for industry analysts. (Operator Instructions) The audio and slide show of this presentation are available through live webcast at www.cosan.com.br/ri. The slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Cosan Limited and Cosan SA's management and on information currently available to the Company. They involved risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Cosan Limited and Cosan SA and could cause results to differ materially from those expressed in such forward-looking statements. Now I'll turn the conference over to the CFO and investor relations officer, Marcelo Martins. Mr. Martins, you may begin your conference.

Marcelo Martins {BIO 16440115 <GO>}

Thanks. Thank you, all for joining us this morning for our yearly earnings release. We have, actually, disclosed our numbers for the first time in the IFRS accounting standards as opposed to Brazilian GAAP. So it's a particularly important call, not only because we will be releasing our earnings for the last time on 100% consolidated basis, given the formation of Raizen, the JV with Shell, but also because we will, from now on, adopt IFRS as our accounting standards for the publishing of our earnings in the years to come.

Therefore, we have prepared some reconciliation between what would be our earnings in Brazilian GAAP and IFRS, especially for the EBITDA, as we have been asked several questions about this reconciliation and we decided to include a couple of slides here in this presentation. And I'm going to through them in a minute.

I would like to start with our highlights, our production highlights, for the year of 2011, the year that ended in March of 2011. We had an increase of 8% in our sugarcane crushing, jumping from 50.1 million tons last year to 54.3 million tons this year. That actually represented an increase of 11.6% in the sugar production, which ended up being at 3.9 million tons this year compared to 3.5 million tons last year. And in terms of the ethanol production, there was a 20% increase from 1.8 billion to 2.2 billion liters in the year of 2011.

Just wanted to emphasize that, in 2011, or in the year of 2011, we had a ramp up of our production at the two Greenfield projects, Jatai and Caaropo, and that had an impact in the increase of our sugar and ethanol, mainly production as well. There was an increase in the TSR, which was of 129.8 kilos per ton last year and 139 kilos per ton this year. There was also an increase in the production of white sugar within the mix of sugars produced by the Company.

So there was an increase of 41.6% of sugar -- white sugar production as a function of the higher prices in the domestic market. But in terms of the sugar-ethanol mix, we remained pretty much at the same level we were last year, represented by approximately 53% to 54% sugar and 46% to 47% ethanol. We have also increased our mechanization to 80% -- 79.5% at the end of April -- the end of March, I'm sorry, end of our fiscal year, which is in line with where we should be based on the regulation in the state of Sao Paulo.

In terms of our net revenues for our financial performance, we saw a jump of 18.3% from BRL15.3 billion to BRL18.1 billion. The biggest increase came from the downstream business, which jumped from BRL10.2 billion to BRL11.8 billion, followed by the sugar and ethanol business that added net revenues of BRL6.4 billion compared to BRL5.4 billion last year. And that was also the highest jump, in relative terms, which was in Rumo at BRL448 million compared to BRL156 million last year.

In terms of our net income, even though we saw a reduction from BRL1.53 billion to BRL772 million, we had an increase in terms of our net earnings coming from our operating business, considering that last year we had a major impact from the variation in the effects, which caused a very positive impact in our net earnings. And in addition to the effect variation, we had also some positive variation on the derivatives transactions.

But since we started to adopt hedge accounting standards for the Company this year, it will no longer have the same impact it had last year. And in addition to those two specific items, we also saw a big impact last year as a function of the high fees or the tax refinancing program that we decided to be part of last year as well.

Therefore, we had an increase in our EBITDA, and these are all in IFRS for both 2010 and 2011, of BRL2.2 billion last year to roughly BRL2.7 billion this year, represented by a margin of 14.8% this year and 14.2% last year. Out of this BRL2.7 billion of EBITDA, the biggest contributor was Cosan sugar and ethanol, with BRL2.1 billion, followed by CCL with BRL395 million and then Rumo with BRL146 million.

On the following slide, what you will see is a reconciliation of our EBITDA in IFRS and what would have been our EBITDA in Brazilian GAAP had we continued to follow that standard. The reason why we did it was because it would not be immediately clear how much the variation came from factors that impacted the change in the standard and the other impact that came from the operational performance of the Company. So overall, the first impact we show here is at CCL, our downstream business, where investments in intangible assets impacted the EBITDA in the BRL35.8 million. That is actually the renewal or investment in the renewal of contracts with our dealers, our station dealers in Brazil.

The second impact is -- comes from the crop treatment in the sugar and ethanol business in the amount of BRL371 million. And the third one from the variation in the biological assets of the Company. What we see is both items referring to the impact in the biological assets overall, representing BRL750 million, approximately. That number was partly offset by the variation in Rumo or the gains that we had in Rumo -- or, I'm sorry, at Cosan Acucar e Alcool as a function of sale of the 25% stake in Rumo last year. That impact was of BRL223 million that partly offset the BRL750 million. So overall, we had a net impact of BRL530 million coming from the crop and biological assets offset by Rumo.

Then we had some other impact as well, mainly related to the intercrop season maintenance that was done at the sugar and ethanol business, which represented BRL65.2 million. So taking all into consideration and reconciling the numbers to Brazilian GAAP, our Brazilian GAAP EBITDA was of BRL2.040 billion, which is absolutely in line with our projected EBITDA where -- when we indicated last quarter a range of BRL2 billion to BRL2.2 billion of projected EBITDA in Brazilian GAAP for the consolidated Cosan company in 2011.

The non-recurring -- other non-recurring items that had a negative impact on our EBITDA, which are already included in the BRL2.040 billion are the shared services center and the set up of the shared services center and the expenses with the information of the joint venture in the amount of BRL46 million, provisions that we have made at the sugar and ethanol business, which had a negative impact of BRL30 million, and other impacts like fees and expenses related to the private placement at Rumo and severance payments to certain employees that used to work for Cosan sugar and ethanol and downstream as well. So the comparable EBITDA in Brazilian GAAP is BRL2.040 billion for the year of 2011.

Just following that same project, we decided to disclose what would have been the Brazilian GAAP EBITDA for the last quarter of the year, which was or would have been BRL476 million, which was a substantial increase from the Third Quarter. As we had predicated, the better performance of the sugar and ethanol in the downstream businesses had a very positive impact in our EBITDA at the last quarter of the year.

Then we add to that number the impact coming from the biological assets of the crop treatment and the market assistance program, which is the program I a made reference to at the downstream level, which resulted in an IFRS EBITDA of BRL1.06 billion over the last quarter of this fiscal year. I just wanted to emphasize that the impact of Rumo's BRL223 million gains were reflected in the Second Quarter of this fiscal year. So it's not reflected in the last quarter, but it's in the actual numbers when we come up with the consolidated EBITDA for the whole fiscal year.

Now moving to the business lines, the performance of these different businesses. We had an increase of almost 19% in the net revenues of the sugar and ethanol business from BRL5.4 billion to BRL6.4 billion in this fiscal year and a jump in the EBITDA of 21.3% coming from BRL1.76 billion to BRL2.13 billion in 2011. So the EBITDA margin for the sugar and ethanol business in IFRS was 33.3% this year compared to 32.6% last year.

The main sources for the increase in the net revenues were a combination of higher prices and volumes for the sugar and ethanol business, the ramp-up of the two Greenfields, as I mentioned before, the expansion of the sugar factories and investments in co-generation projects as well. It's worth mentioning that even though we had a lower crop than we had originally anticipated, we still managed to increase the net revenues of the Company as we thought would be the case during this fiscal year.

Now moving to the Rumo, to our logistics business. This is the business with the most representative variation or positive variation in net revenues. And as a consequence of better prices, but also the operations in the transportation business as well. In the year before we were only doing the loading at Rumo and not transportation and that's the source of -- for the big variation in the net revenues, which represented 187% coming from BRL156 million to BRL450 million, approximately.

In terms of our volumes, our loading volume came down as a function of the lower sugar production in Brazil, from 8.1 million tons to 7.5 million tons of loaded sugar at the port. But the revenue per ton, considering all the businesses, increased from BRL19.2 to BRL60. That had an impact of 100% in our EBITDA that jumped from BRL73 million to BRL146 million and the EBITDA margin was of 32.6% compared to 42.7% last year.

Now moving to the downstream business, with CCL. This was another year of growth in our volumes sold at the downstream business, represented by an increase from 5.6 billion to 6.2 billion liters. The biggest jump was in the diesel segment of the business, where we saw an increase of 21.6% from 2.5 billion to 3.1 billion liters, followed by an increase in gasoline volumes from 1.8 billion to 2.1 billion liters and a reduction in the ethanol volumes from 800 million to 781 million liters as a function of the increase in the price of ethanol, a sharp increase in the price that ended up impacting the overall volumes sold at the stations.

Lubes had also a pretty significant increase in sales from 131,000 to 166,000 liters in the year of 2011. Therefore, our EBITDA presented a positive variation of 11.6%, coming from BRL364 million to BRL395 million in 2011, with an EBITDA margin of 3.3% compared to 3.5% last year. It's worth mentioning that we have some non-recurring expenses that impacted the EBITDA this year, mainly as a function of the joint venture with Shell and part of the expenses or the costs related to the set up of the shared service center that were allocated to the downstream business as well. Overall, we had an EBITDA margin per cubic meter from BRL62.9 last year to a BLR63.2, a variation of 0.5%, resulting from a better mix of products and an increase in the lubes volume as well.

Now talking a little bit about our hedging or our hedging positions for this year. As of March of 2010, we had, at that time, a hedged position of 1.9 million tons of sugar and -- which is at the average price of $22.25 per pound, which when considered the FX hedging as well, would go up to $24.35 per pound for this actual crop season -- the crop season of 2012.

Now moving to our next debt position, we had an increase in our net debt position compared to last year, once we raised money from BNDES to continue to finance our co-generation business and for the conclusion of the Greenfield project as well. So overall, BNDES disbursed BRL1.2 billion for those investments that goes on this year.

We had also additional debt raised in the perpetual market through an issuance of 300 million perpetual notes in 2010, equivalent to BRL515 million. We also increased our debt by BRL235 million through the acquisition of Zanin in December of 2010 as well. But in turn, we paid down almost BRL2 billion of principle and interest in our debt and we also had a net cash position of BRL1.3 billion in March of 2011. So overall, we had the substantial reduction in our net debt to EBITDA ratio to less than 2 times, more specifically 1.97 times at March 31 of 2011.

We have also provided very recently some guidance to the market, not only for the business that are under Raizen, but also for the overall consolidated numbers at Cosan, which take into consideration the other controlled businesses and 50% of Raizen. So starting with Raizen, we project a volume of sugarcane crushed for this fiscal year between 56 million and 60 million tons, sugar volumes sold between 4.2 million and 4.6 million tons, and an ethanol volume sold from 2.1 billion to 2.3 billion liters, and a total volume of energy sold between 1.4 and 1.6 gigawatts. That should result in an EBITDA in the range of BRL1.9 billion to BRL2.3 billion.

In terms of our fuel distribution business, our downstream business, we project volumes to be sold in the domestic market of 21 billion to 23 billion liters during this fiscal year, which should result in an EBITDA between BRL850 million and BRL1.050 billion for this fiscal year. So overall, we project net revenues at Cosan or the consolidated Cosan revenues, net revenues, should be between BRL25.5 billion and BRL27.5 billion. For the other controlled businesses, we project a loading volume at Rumo between 9 million and 11 million tons, a transportation volume at Rumo as well between 6 million and 8 million tons.

Volume of lubes sold in the market -- in the Brazilian market between BRL170 million and BRL190 million, which should also represent an increase over last year, last year's volumes sold. And we project a sale of sugar in the retail market -- in the Brazilian market, between 600,000 and 700,000 tons during this fiscal year. So we should have enough net -- should have an EBITDA in the range of BRL1.8 billion to BRL2.2 billion for Cosan during this year.

And a CapEx between BRL2 billion and BRL2.3 billion. The CapEx takes into consideration the CapEx for Rumo, which we project to be around BRL600 million and we have some CapEx for lubricants and Cosan (ementos). I would say that those numbers are not relevant compared to the overall figures of Cosan. And the difference is actually 50% of the projected CapEx at the Raizen.

Just want to remind you once again that these are all numbers in IFRS, so they take into consideration the impact of the other items as we have described before during this fiscal year. I'd like to now turn back to you. I'm here with Marcos Lutz and we'll be ready to answer your questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Debbie Bobovnikova of JPMorgan.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi. Good morning, and congratulations on finishing the transaction with Shell. I just wanted to start off by understanding better the guidance on the fuel distribution side. Can you help us understand how much of the growth in volumes is due to organic growth that you're assuming in the market and if you could break that down into what you assume for the market overall and what your market share gains are versus the contribution from increased volumes from Shell. And also, if you could just help us understand if that number also includes aviation fuels. And if so, how much are you assuming would be the aviation fuels within the total number?

A - Marcos Lutz {BIO 6779636 <GO>}

Debbie, here is Marcos. Just to give you guidance. First, yes, aviation fuels is included there. The volume growth is roughly 8% from year to year, which is almost in line with the market growth. A little larger than the market, but probably the market will grow between 6% and 8%. Some segments actually grow more, like aviation, you just mentioned, is growing at rates that are above 10%. But yes, this is fully organic growth. There's a slight increase in market share, but just in line with what is happening as a trend where actually white flags are losing market share to the major companies.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Yes. And is it possible to quantify how much would be the aviation fuel for the year? Just because it has slightly different fundamentals in terms of margins and pricing, et cetera.

A - Marcos Lutz {BIO 6779636 <GO>}

Yes. Aviation is different in terms of OpEx as well. They do have a larger OpEx because of it's an operation that we actually serve the airlines. Margins also are larger. Let me just get you the number -- I'm asking here for them to provide me the exact number, so I will give you the breakdown in a minute.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. So while we wait, maybe we can talk a little bit more about the sugar ethanol segment. You mentioned previously the target -- the long-term target of reaching 100 million tons of capacity of crushing. And now that the transaction with Shell is complete and your balance sheet in Cosan SA is cleaned up -- and at the same time, you're seeing a lot of pressure from the government to basically ramp up investments again. And what are your thoughts in terms of your expansion -- organic expansions in sugar ethanol? Are you kind of talking with the government to try to ramp up some of your projects and, if so, how quickly can we hear of an announcement and what potential size can we see?

A - Marcos Lutz {BIO 6779636 <GO>}

Debbie, so just clarifying. So the five-year plan is actually to reach 100 million tons. This is obviously a plan subject to economics. This actually will be tapped through three strategies combined -- Greenfields, Brownfields, and acquisitions. Brownfield is, I would say, what you call the low-hanging fruit. We have about 15 million tons of opportunities to grow as a Brownfield at costs of -- on the range of $70 per ton of crushing capacity. So this is obviously unbeatable because not only it will grow in a cheaper way, but also increase your efficiency in your existing capacity.

So this is the plan that will be focusing from now on. We are already focusing that. The impact of this plan for next year is zero. This is pretty much planting the year that is coming now, but crushing will be impacted through this Brownfield program only on the next year and on. This is about 15 million tons if you considered all the opportunities in our current mills. Besides that, again, on the acquisition side, we remain disciplined. We are not changing now our view of the market, our disciplines, and everything. So this will be subject to economics. We won't go after companies at $140 a ton or something like that as we see competitors doing. Then this is, I would say, a different bank.

Then we have Greenfields. Greenfields -- I think this one is really more linked as a strategy with what the government is discussing now. Obviously, if you have, for instance, a large bio-electricity program auction or if you have BNDES special lines or something like that, this will directly affect, I would say, the appetite to invest. We remain -- we do have two Greenfield projects licensed or, I would say, ready to go. But again, we want to see what will be at the end of this year, all the regulatory, let's say, framework and calculated incentives to do that. At the end, in the message I want to go very strongly here is we remain disciplined and we will do stuff that makes sense.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. So on the Brownfields, the 15 million ton number that you mentioned, could we potentially see that coming up in fiscal year '13? Is that -- if you are planting it today --?

A - Marcos Lutz {BIO 6779636 <GO>}

Not everything. What I'm saying is you will see impacts already starting in the other year. This year we will see no impact. 15 million tons is, again, the project for the five-year plan. But you won't see 15 million tons in the other year. You will see a small portion of that.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay.

A - Marcos Lutz {BIO 6779636 <GO>}

Remember -- and going back to your first question, with 2.6 billion liters of aviation fuel.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Great. And the $70 per ton of cane capacity -- or CapEx number that you gave us for the Brownfields, does that include co-generation and ag machinery, et cetera? Is that all in for the industrial segment?

A - Marcos Lutz {BIO 6779636 <GO>}

Depends. It's a different calculation here. That is because you're talking about Brownfields? Some of those Brownfields do actually have co-gen programs. Some is pretty much planting more cane in existing capacities. Some is really almost revamping entirely the mill and then, obviously, you will bring up mill -- the mill equipment with co-gen. But I cannot tell you a proportion, for instance, of co-gen and crushing like we do in a Greenfield. Because again, this one is pretty much a patchwork of small opportunities all together in 24 mills.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Yes. So this would be the number not only for the industrial, but also for the agricultural investment, the $70 per ton of cane. That's all in. And I understand there are different moving parts, but that's good to know. So can you give us a reminder of what it would be like for a Greenfield mill?

A - Marcos Lutz {BIO 6779636 <GO>}

Today will be roughly $135 to $140 per ton of crushing capacity. And when we say agricultural investment, we're not talking about the cane itself. We're talking about the agricultural investment needed to harvest and to process that. You always count on your supplier also to do partially the investment needed for that expansion.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

I assume these numbers that you're giving $70 for Brownfield and $135 to $140 for Greenfield assume the same mix of 50% owned cane and 50% third party. Is that correct?

A - Marcos Lutz {BIO 6779636 <GO>}

This is correct on average for the Company, but for instance, I will give you two examples. The mills that were from North America, those mills -- and there's a big expansion plan in those mills. They are 100% third party. Because, let's say, the former owner of North America still supply 100% of the cane. And they area actually a shareholder. So it's a very steady, long-term relationship. So this assumption applies for the rest, but not for North America mills.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. But the general number -- let's say, $135 to $140 per ton of cane of new capacity, that includes the necessary equipment for agricultural but also includes the need to plant up to 50% of your own cane, correct? Not just the industrial side?

A - Marcos Lutz {BIO 6779636 <GO>}

No, no. That's just the industrial plus equipment for agricultural. No cane is in that number.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Got it. Okay. Great. Thanks so much for your answers.

Operator

(Operator Instructions) Our next question is a follow-up from Debbie Bobovnikova of JPMorgan.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Since there are no other questions, I just wanted to also ask you maybe to give us an update on what you're seeing this season so far We're hearing the season is off to a bit of a tough start. Just wanted to get an idea of how you're seeing your own plantations and the cane that's coming in, in terms of yields. And also if -- kind of give us your latest outlook for what you think the total Brazilian production or cane crush will be for the year, based on what we've seen so far.

A - Marcos Lutz {BIO 6779636 <GO>}

Debbie, actually, the start was pretty good, I would say. It was later because this year we are expecting less cane. So we concentrated more -- the center south concentrated more the crushing, where actually it can get better yields. So I would say it was a late start, but not a bad start. In fact, our mills started in a very stable way. Since, in Cosan, we never saw, let's say a crush going a smooth as this one at the beginning of the crop. The yields, let's say, the sugar content is lower, a little bit, than expected, I would say. We actually had a very high sugar content yield last year.

And this year, we are not seeing that, given that you had a normal regime of rain throughout the intercrop. So if you ask me about my outlook in terms of center south crushing will be pretty much on the range of 560, 555, with lower sugar content. So in theory, final product will be a little short of last year's numbers.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. And just on -- to touch back on the regulation of the industry, I see there are a lot of headlines about the government regulating more the ethanol side and making it -- putting it under the A&P and potentially coming out with a ten-year plan. I'm just wondering how close are you to the government in these discussions? What's your feeling about the most likely policies that we're going to see as a result of these discussions? And also what are kind of the red flags that might -- that we might see that might make you think otherwise about investing in these Greenfields? What are kind of the measures that would make you very cautious about future investments?

A - Marcos Lutz {BIO 6779636 <GO>}

Okay. I would say, first of all, I think it makes all the sense to bring to A&P a, let's say, statistics and control on ethanol because ethanol is a fuel. And A&P actually regulates all the fuels, but ethanol until now. So bringing in ethanol actually makes the planning and statistics job a lot easier. Because before, you had all these different interpretations and different reports and this was always, tough to reach an agreement of what will be the inventory at the intercrop and what will be the final inventory when we start crushing and all that stuff.

So I think the outcome that we should expect, that will be positive, is a better planning and better statistics for fuels, including ethanol. Probably anything that interferes much on the normal economic decisions is a red flag. So far, we have not seen those -- and I think the government is very, very aware and very understanding about the fact that the sector needs a huge investment and needs a huge support from investors and financial institutions. So the government will be very cautious in doing anything that damage that relationship, I would say.

So we are very close to that negotiation. We have been in pretty much all the meetings directly or through UNICA that are discussing what we should be planning for the future. On the overall, we have -- the good news is that actually the world is not with oversupply as we used to see five years ago. The world now is short in sugar and short in ethanol. Sugar -- you have some, let's say, production this year coming from non-traditional producers. But again, on the long run, we also need production coming from Brazil to stabilize the trade flow.

So the news are good. And I think the fact that this was very sensitive, very political, was the fact that ethanol prices went up and were the largest impact on inflation index in April. So this obviously made a lot of noise on the whole process. Now that actually prices on ethanol when down to normal levels and supplies is very stable and back to track after like a ten-year of success stories, people will sit down now calmer and design a regulation that will make sense to everybody.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

You said that there haven't been really major red flags. I guess maybe you can help clarify a few things that we've seen in the press. I guess some of the red flags that I've seen were talk about restricting exports, if there's not enough domestic supply, potentially putting on sugar tariffs, potentially lowering the mandatory blend of anhydrous ethanol and gasoline. All those things, I would think would be negative for this sector. I'm just wondering what's your take on them? Do you think that those were kind of exaggerated and the government is not really considering them or do you think that even if any of those are implemented, the impact will be small?

Then also, I guess, just from the greater oversight of A&P on the ethanol side, if that results in more stable inventories through the season and therefore more stable pricing, I wonder what this means for Cosan's strategy of usually kind of separating itself from most of the producers by being able to take advantage of what we've seen historically as high spreads in pricing between inter-harvest and intra-harvest ethanol because of this lack of storage capacity, historically. I just wonder if that economics changes now that, let's say, because of these regulations we'll have a more stable price. And maybe there's not as much opportunity to arbitrage that for a company like Cosan.

A - Marcos Lutz {BIO 6779636 <GO>}

So let's get every piece here. So you started talking about restrictions in exports of sugar with taxes or exports of ethanol. Again, I don't see this happening. I don't see, for instance, a law taxing sugar exports. But if this, for some reason happen, Brazil is 60% of the exports of VHP in the world. This will dramatically impact the prices of sugar and will correct for that. It's not over shoot. So I don't see this as a risk. But also I don't see this happening at all. And for that reason again, for the purpose of the measure, it won't work. So I don't see this happening.

The restriction to export ethanol, again, there is a clear economic incentive to -- not to export. So again, if we get to a level of undersupply, where restrictions are to be applied, again, the economic incentive is actually to see domestically before you won't have any impact. But again, I don't see this happening for the same reason -- has not impact. People will already -- we imported more product than exported this year, so make very little sense to basically say that, in the intercrop, exports will be forbidden. Again, makes very little sense.

The export that actually happened at this point are just exports of really high value-added ethanol and, in theory, you can actually arbitrate and export one liter and import one liter and a half for the same price, which would make a lot of sense for the supply in the country. So again, I don't see this happening for the same reason.

The one thing that actually would have an impact and actually can have an impact is this reduction of blend. This was used -- this was actually the only thing that was really put at the Congress level. So before we had a flexibility between 20% and 25% blend and now this is going to be between 18% and 25%.

So additional 2% is a decent market. But again, I don't see first this being too relevant. I think this just gives more stability to the process. At the end, when the government really sees that there's no enough supply for the blend, they can actually have a way to keep gasoline being blended without stopping to blend gasoline because of lack of ethanol and have not anhydrous ethanol as well. So this scenario would not be good to anybody, not even for the sector, because this will be a distressed scenario.

So again, I don't see this as a big hurdle. This potentially would be a lower market share scenario, but will be only making sense if this happens with no ethanol. If you say, well, if they lower this from the beginning of the crop, people will just blend -- we will just have less anhydrous ethanol and this will actually increase the prices of gasoline and will increase the consumption of anhydrous ethanol. And at the end the balance will be the same. So really, Debbie, I don't see any big hurdle on that. I'm not sure if I touch upon all the points you raised, but if you can remind me if I forgot some.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

No, actually, those are all the points that I raised, but I did remember one about -- there's another regulation -- potential regulation about requiring mills to crush a certain percentage of ethanol versus sugar and tying that to the BNDES funding. So I don't know if you've heard the same thing and if you have any comments. Then just another track that we were talking about what is the potential impact on Cosan's ability to earn higher prices and higher revenues from being able to arbitrage the inter-harvest and intra-harvest prices. How that will change if -- as a result of all these regulations, the price is more stable.

A - Marcos Lutz {BIO 6779636 <GO>}

Okay. So again, addressing the last one, I think this is a risk return thing. So obviously, Raizen will be always better than competition, probably most of the time better than competition in arbitration. But also better in terms of cost of capital. So if the risk reduces substantially, they will be also in a big advantage to do that. We never really speculated on that. We never did a big position or there because we normally just sold one-twelfth of our production throughout the year without really taking positions. Then we will be making money on logistics and other things.

Regarding to establishing a -- let's say, a percentage of crushing, this is -- again, not feasible. This won't happen. And I have not heard directly from anybody that this would be the case. And let's -- now I have -- no, we had another question, but I think it is not there anymore. But -- so again, on regards to establishing a rate of crushing, again, if you do this, you impact so much the prices of sugar and ethanol that those things tend to be very correlated and you won't be very successful if you do that. And the government will never do it because, at the end, you have legal issues with that. Legally, you cannot do that as a government.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Great. Well I'll -- hopefully, that other question will come back up. I'll give him some room to ask. Thank you, so much for your answers again.

Operator

(Operator Instructions) Our next question comes from Ivan Fernandes of Barclays Capital.

Q - Ivan Fernandes {BIO 22125325 <GO>}

Hi. Good morning. I apologize in advance. I joined the call a little late, so I'm not sure if my question is repeated. But I just wanted to understand, of the debt that you moved from the Cosan SA to the JV that you announced last week, BRL4.940 billion, how much of that is actual debt and how much of that is cash?

A - Marcelo Martins {BIO 16440115 <GO>}

Everything is actual debt. In fact, there's no cash, let's say, negative cash being contributed. It's all debt.

Q - Ivan Fernandes {BIO 22125325 <GO>}

Okay. And the bonds in the end all ended up being at the JV level, correct?

A - Marcelo Martins {BIO 16440115 <GO>}

The only bond that is at the Cosan level is the perpetual bond that was --

Q - Ivan Fernandes {BIO 22125325 <GO>}

The new (perp).

A - Marcelo Martins {BIO 16440115 <GO>}

The new perp, yes.

Q - Ivan Fernandes {BIO 22125325 <GO>}

Great. And are you guys thinking about doing something with those bonds or you want to leave them there for now?

A - Marcos Lutz {BIO 6779636 <GO>}

The perp that is going to stay at Cosan?

Q - Ivan Fernandes {BIO 22125325 <GO>}

No, no. The ones that were moved to the JV loan.

A - Marcelo Martins {BIO 16440115 <GO>}

We -- well, the 2014 and the 2017 are callable, but under some -- they have some make (hold) provisions. So we're not thinking of calling those bonds at this point in time. But we have other debt like export through payment that could get refinanced at a lower cost and we'll actually do what is possible at this point in time period is the average cost of the debt of the company.

Q - Ivan Fernandes {BIO 22125325 <GO>}

Great. Understood. Thank you very much.

Operator

Our next question comes from Juan Raffetto of MetLife.

Q - Juan Raffetto

Hi. Good morning. Just -- my question was partially asked recently by the colleague from Barclays. Just a follow-up there. What's the status of the bonds that were contributed to JVs in terms of the cost guarantees? If you need to make any amendment to the indenture of those bonds.

A - Marcelo Martins {BIO 16440115 <GO>}

No. No need to make any amendments to the indenture. We'll keep the bonds where they were before, which means that the 2017 will be at Cosan sugar and ethanol. And 2014 will be at the downstream business. No need for additional guarantees under the existing bonds. In the future, cost guarantees would be considered depending on the market requirements at the time we issue new bonds.

Q - Juan Raffetto

Okay. So basically '17 are at the JV -- Energia JV and, no, they would not have a cross guarantee from the JV from fuels, basically?

A - Marcelo Martins {BIO 16440115 <GO>}

That's correct. The '17 will be at Acucar e Alcool at sugar and ethanol and the '14 will be at the downstream company. The vehicle they issued in 2017 will be under Cosan sugar and ethanol. So those bonds will fall under the JV, both of them, in different vehicles. No cross guarantees, but that we have already made very clear to the market. These are companies that are 50% owned by Shell and Cosan, each one of them.

And the idea is that 100% of the cash flow coming from both companies would be used for the two companies with no stamp on the cash flow for -- to be retained by each of the businesses. Therefore, even if we have no cross guarantees, the cash flow coming from both business lines will be used to pay back debt for the two companies.

Q - Juan Raffetto

Okay. Okay. That's clear. Thank you.

Operator

(Operator Instructions) This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Martins for any closing remarks.

A - Marcelo Martins {BIO 16440115 <GO>}

Thank you, again for participating in our call. I just wanted to reemphasize that it was not only a very good quarter in terms of results in a very disappointing year in terms of our crop. And as a consequence, the production of sugar and ethanol. We still managed to make up for the lower crop and keep the results, as we had indicated, to the market. Therefore, from now on, all the figures will be in IFRS and if you have any additional questions on the Brazilian GAAP reconciliation that we have provided here in this presentation, we will be available for additional questions here at the office. Thanks again, and we'll talk to you next time.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect and have a great day.