

NEWSLETTER

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SHARE OF INFORMAL WORKERS REACHES ALL-TIME HIGH

The Covid-19 crisis has deteriorated Brazil's labor market and pushed informal employment to an all-time high. The proportion of informal workers in Brazil's employed population is the highest in a decade. Economists say this proportion is likely to increase in the short term and argue that without economic growth it is unlikely to reverse course.

At the end of the second quarter of 2021, informal workers accounted for 48.7% of the employed population, compared to 45.7% in the first quarter of 2012 and the previous peak of 48.5% in the third quarter of 2019, according to a survey by consulting firm iDados, based on data from the Continuous National Household Sample Survey (Pnad Contínua). The data include all self-employed workers, most of whom are informal, and excludes employers, most of whom are formal.

In the methodology that includes self-employed workers and employers with a business taxpayer number and excludes all those without a business taxpayer number, the share of informal workers reaches 43% in the second quarter of this year, up from 41.5% in the second quarter of 2016, and peaks at 44.1% in the third quarter of 2019.

The current backdrop is a result of the slow recovery of the labor market, in which workers find opportunities only in the informal market, economists say.

"With the pandemic, a lot of people left the labor market, which is recovering but is not growing fast enough yet to absorb all those who left the labor market, in terms of quality jobs," said Bruno Ottoni, with iDados. "There is great formal job generation, but given the great loss of jobs in the Brazilian economy as a whole, we would need to generate more formal jobs. No wonder people can't find other alternatives and the number of self-employed workers, for example, has been growing."

Data from Pnad survey shows that the number of self-employed reached 25.4 million people in the quarter ending in August, an all-time high. The total represents an increase of 4.3% compared to the previous quarter, ended in May, and 18.1% year over year.

The current scenario differs from other times of high informality such as 2016 and 2017, when there was a kind of “uberization” in Brazil, or from 2019, when many left formal jobs to become self-employed workers, said Cosmo Donato, an economist at LCA Consultores.

“In 2016 and 2017 we saw precarious work gain ground, a kind of uberization, after the 2015-2016 crisis. In 2019, it was something expected, with less formal workers and more ‘pejotização’ [hiring of workers as firms rather than individuals] and entrepreneurship, but not a large movement towards more precarious jobs,” Mr. Donato said. “What is happening today seems more like 2017. The economy has recovered, but is growing at a pace that is insufficient to absorb everyone and generate income growth for everyone. The labor market has more people employed, but is worse in terms of income. It’s a very sad scenario.”

According to the economist, the rise in the share of informal jobs is unlikely to stop now. “The increase in informal jobs was expected in recent years, but now this movement will be much greater and driven by a larger share of precarious jobs. The opportunities that will arise will not be good. With the perspectives for the economy today, informal jobs are here to stay,” he said, mentioning the bad GDP growth projections for 2022 and 2023. For next year, the consulting firm expects a growth of 1%, and for 2023, of 2%, with a downward bias.

The Brazilian labor market is still likely to see informal jobs reach new all-time highs in the coming quarters, Mr. Ottoni said. “There are still a lot of people to enter the labor market. Before the pandemic, the labor market was made up of about 106 million. Now it is 103 million. That is, 3 million have not yet returned to the labor market,” he said. “That suggests that there are a lot of people to come back, but since the outlook for the economy is not so good, we may not see as much generation of formal jobs, and people will have to find options outside the formal market.”

Daniel Duque, an economist at think tank Fundação Getulio Vargas, argues that in the coming months Brazil will still see some recovery in employment, with an increase in formal employees, since formal jobs follow GDP growth. “But as of next year, we should see this movement lose steam, given the growth of the economy that should be low again,” he said. “We will have a stable labor market, but favorable to more informal workers.”

According to him, the current backdrop is a step backward in relation to the situation seen in Brazil from the 2000s onwards, of a larger share of formal jobs, which pushes the labor market to a very negative level in terms of development.

“It is a bad scenario not only from the standpoint of productivity, but also with regard to income, banking and access to credit, tax collection and several consequences that affect both the worker and the government itself,” he said.

Source: *Valor International*

<https://valorinternational.globo.com/>

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BRAZIL URGED TO EXPAND FOREIGN ACCESS TO BIDDINGS

Brazil is facing demands to expand the access of foreign companies to the public procurement market of more states and sectors such as health, in negotiations to adhere to the Agreement on Government Procurement (GPA) of the World Trade Organization (WTO), according to restricted documents seen by Valor.

The country asked to enter into this agreement last year, saying it was a priority for the government, and in February this year made its initial offer to open up its market, which it considered to be comprehensive and ambitious. For the first time, Brazil offered foreigners access to public purchases from some states – Amazonas, Minas Gerais, Pará, Paraná, Rio Grande do Sul, in addition to the Federal District – and municipalities, joining the federal government and several state-owned companies, but with several exceptions.

Several developed partners, including the U.S., consider the opening insufficient for their companies to participate in some tenders in a market estimated at up to \$145 billion per year

Japan recently asked Brazil to expand access by foreigners to public procurement bids from all other states and also from large municipalities such as São Paulo, Rio de Janeiro, Porto Alegre, Osasco, Fortaleza, Salvador, Campinas, São José dos Campos and São Carlos.

In response to Canada, the Brazilian government explained that Brazil’s federal structure of 26 states and a Federal District “poses complex coordination challenges” and that they have “a certain level of autonomy when it comes to procurement procedures and practices.”

It noted that all states were formally consulted in the process to present an opening offer to the WTO. Five states and the DF voluntarily agreed to be part of the offer “with broad coverage and very few exceptions.” And it warns that so far “most other states have not expressed interest in being part of the GPA’s market access offer. Although some of them may voluntarily move forward, it is unlikely that the majority will adhere within the proposed deadline for (Brazil’s adherence to the agreement).”

The government also highlighted that the level for foreigners to be able to participate in bidding for goods and services in the states included in the offer starts at around \$286,000, which it considers higher than what was offered by several countries. Partners also have several exceptions at this point. The U.S. did the “Buy American” largely with public procurement programs in states and municipalities that are not covered by U.S. commitments in the WTO’s GPA.

The U.S., Japan, Canada and other partners want to deepen the Brazilian offer and target the core of the exceptions that Brasília made and that are important to the country. They ask for the inclusion, for example, of access by foreign firms in public procurement tenders for financial services and strategic health products and inputs for the Brazilian public healthcare system (SUS).

“The consultations (at the WTO) make clear the great interest in opening the bidding market in the states and municipalities and in the health sector in Brazil,” said Fabrício Panzini, manager of International Integration at the National Confederation of Industry (CNI). “It is up to Brazil to evaluate its policies well and seek a balance, which exists, but demands time and negotiation between the opening and preserving strategic public policies for the country.”

Partners are also asking Brazil to remove the possibility of “offset,” which are exceptions for technology transfers, as those made in the purchase of military jets from Sweden. For analysts, a potential problem is that, by giving up special and differentiated treatment at the WTO, this exception for Brazil becomes more difficult.

“The industry’s position is to maintain the prerogative of using this instrument, at least temporarily, as is the case with Israel and other countries in this agreement,” says Mr. Panzini. “The measure can be of great relevance for international projects that involve technology transfer and contribute to innovation and production in Brazil.”

For the Government Procurement Committee at the WTO, Brazil’s membership “on mutually acceptable and appropriate terms” will be significant for the GPA, the WTO and the world economy, “as Brazil would be the first country in Latin America to join to this understanding and would heighten interest in the GPA among countries in the region and beyond.”

Source: *Valor International*

<https://valorinternational.globo.com/>

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CHICKEN EXPORTS GROW IN VOLUME, REVENUE

The volume of Brazilian exports of chicken meat (fresh and processed) grew 24.2% in October compared to the same month last year, to 397,100 tonnes, according to data from the Secretariat of Foreign Trade (Secex) compiled by the Brazilian Association of Animal Protein (ABPA), which represents large meatpackers, such as BRF, Seara (JBS) and Aurora.

In revenues, chicken meat sales overseas totaled \$715.2 million last month, up 60.1% year over year.

China continued to be the main destination of Brazilian exports, being responsible for the purchase of 51,200 tonnes in October, 2.5% more than that seen in the same month last year. Other highlights were Japan, with 47,200 tonnes (+60.4%) and the United Arab Emirates, with 43,600 tonnes (+49.6%).

“There was generalized growth in the various destinations of exports of Brazilian chicken meat in October, maintaining the positive projections forecast by ABPA for the year 2021,” said Ricardo Santin, president of ABPA, in a statement.

“At the same time, the significant rise in export revenue has balanced the impacts of production cost increases offset since last year,” he added.

From January to October, Brazilian exports of chicken meat reached 3.86 million tonnes, up 10.4% year over year. Those shipments generated \$6.3 billion in 2021, up 25.1% year over year.

Source: *Valor international*

<https://valorinternational.globo.com/>.

November 11, 2021

BRAZIL PORK EXPORTS UP 12% IN OCTOBER

Brazil's pork exports (in natura and processed) reached 99,100 tonnes in October, up 11.9% compared to the same month in 2020, according to data from the Secretariat of Foreign Trade (Secex) compiled and released Wednesday by the Brazilian Animal Protein Association (ABPA). Revenue, in turn, increased 9.3% to \$218 million.

Between January and October, exports have already reached almost 1 million tonnes. In all, 968,000 tonnes of the protein were shipped, 13.4% up than in the same period in 2020. The revenue in the same period totaled \$2.2 billion, an amount 21.5% higher than that of 2020, according to the ABPA.

“The [monthly] average of shipments recorded in the second half, above 100,000 tonnes, is a landmark. And it indicates the expectations for a new record of pork exports from Brazil, of around 1.1 million tonnes, will materialize” said Ricardo Santin, president of the association, in a statement.

China remains the main destination for Brazilian protein exports. In the first ten months of 2020, the country purchased a total of 481,900 thousand tonnes (13.9% more than in the same period last year). Other highlights are Chile, Japan, and the United States.

“The sanitary status of Brazilian pork production has been a competitive advantage in the international market, contributing to the supply in markets whose domestic offers continue to be affected by the occurrence of outbreaks of African swine fever,” said ABPA’s head of markets Luis Rua on the same statement.

Even with the increase in exports, the availability of pork meat is enough to meet the demand of the Brazilian consumer, concluded ABPA.

Source: *Valor international*

<https://valorinternational.globo.com/>

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BRAZIL STARTS EXPORTING DAIRY PRODUCTS TO CHINA

Brazil is opening the doors of the Chinese market to dairy products. Earlier this month, China received the first cargo ever. Two years after the consolidation of the opening of the market, with the qualification of the Brazilian plants for exportation, Central Cooperativa Gaúcha Ltda (CCGL) sent on the 5th a small volume of powdered milk by air, from the airport of Guarulhos, in São Paulo, to Shanghai.

Emblematic, the deal is with one of the largest dairy products consuming markets in the planet, whose imports are booming. “We believe very much in this market for the future,” CCGL CEO Caio Vianna told Valor. The company registered revenues of R\$1.4 billion in 2020.

First Brazilian group to seek qualification to export to China, CCGL will use this sale to try to expand business in the country, where it already has a registered trademark. The import was carried out by a partner company of the cooperative, which will now do the work of a commercial correspondent to advertise and sell the cooperative’s products. Two more containers of powdered milk have already been negotiated and should be shipped soon.

The exported cargo included powdered whole milk, skimmed milk powder, and zero lactose milk powder – an item that requires the application of a lot of technology and may be of interest to the Chinese public, says the CEO. “The objective of the first export is to have the product in China so that we can work commercially. We have opened a channel with the largest consumer market in the world,” said Mr. Vianna, who did not reveal the value of the negotiation.

Brazilian dairy products began to be qualified to export to China in 2019, but the certification had been agreed with the Asian country since 2007. Currently, 33 companies have the approval to trade with the Chinese.

To make the sale possible, CCGL had to adapt to the bureaucracies and sanitary requirements of Beijing, which required patience and investments in management, registration, monitoring, and traceability. The cooperative has 3,500 supplying producers and an installed processing capacity of 3.2 million liters per day at the Cruz Alta plant, in the southern state of Rio Grande do Sul.

About 60% of the volume of 1.7 million liters of milk received daily by the central from 30 affiliated cooperatives come from properties certified by the program “Leite Mais Saudável” and are tuberculosis and brucellosis free. The products sent to China come from those producers. Sanitary requirements were also overcome to prove the absence of contaminants in the Brazilian products common in dairy products from other countries.

“We have to be able to trace the product from the farm, with the producer’s name, and all the processing within the plant. We had to explicitly and individually identify the products in the export documents. It is laborious and complicated,” said Mr. Vianna.

The goal is to make the production known and reliable in order to eliminate some requirements in the next shipments. “In large volumes it will be very complicated; these are adjustments that will have to be made as the process evolves.

CCGL has already exported to Algeria and other African countries. Foreign sales are an option to correct market distortions, said Mr. Vianna, given the seasonality of production and domestic prices. “It is good to export because the domestic market is locked, some exports are necessary to take the pressure off stocks,” he pointed out.

According to Mr. Vianna, the agreed prices for the cargo destined for China were similar to those of the domestic market. “It is a first step for other companies to adapt and look for commercial partners. Let’s hope that the market and the exchange rate allow us to have a positive balance.”

The Brazilian Association of Dairy Products (Viva Lácteos) still does not have an estimate of the potential exports to China but says that other companies are prospecting business. The goal is to achieve a performance similar to that achieved in Russia, whose market was opened in 2014. Today, four containers are sent per month to the Russians, with high added value products. “We are slowly conquering the taste of foreign consumers,” says the head of the organization, Gustavo Beduschi.

Source: *Valor international*

<https://valorinternational.globo.com/>

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PARANÁ SEEKS INVESTORS FOR AMBITIOUS RAILROAD PROJECT

Paraná state government is preparing to launch a very ambitious project: Nova Ferroeste, a R\$30 billion railroad between Maracaju (Mato Grosso do Sul) and the Port of Paranaguá (Paraná). It is not yet clear whether there is an investor willing to finance such a high amount. Paraná expects to draw a foreign group, even in an election year. In the market, however, there is little confidence that the plan will get off of the drawing board at this moment.

Feasibility studies recently concluded indicated an internal rate of return of 11% and a 17-year payback period, within a 70-year contract. “The study indicates that the railway is highly viable in all aspects: operational, environmental and financial,” said Luiz Henrique Fagundes, CEO at Ferroeste, a state-owned company that operates a federal concession, from Cascavel to Guarapuava (both in Paraná). The railroad is already in operation, but it is restricted. The idea now is to expand it, reform the current structure and transfer everything to a private-sector company.

Nova Ferroeste would be 1,304 km long, from Maracaju to Paranaguá, with a branch to Foz do Iguaçu (Paraná). The investment includes R\$24.3 billion for construction, R\$4.3 billion in rolling stock and R\$800 million in environmental compensation. There is also a plan for another branch to Chapecó (Santa Catarina), but that was not included in the recently completed study.

The goal is to hold the auction by mid-2022. The state government plans to conduct market surveys in December and open public consultations. The first version of the call for bids is expected for February 2022.

However, there are still things to be defined, which go beyond attracting an investor. There are at least two question marks. The first is legal modeling, which has not been decided. At first, the idea is to carry out the project under an authorization regime, says Mr. Fagundes.

Ferroeste has even made requests to the federal government to build the additional stretches (outside the concession) by authorization — a new regime in which the entrepreneur is fully responsible for the undertaking, without risk sharing or financial support from the government.

However, the arrangement is complex. There are doubts about how the state-owned company would tender the entire corridor, since part would be done under the authorization regime and the other part is already an existing concession, in which the federal government transferred the operation to Ferroeste. “I don’t know to what extent we are going to be able to evade the concession. One possibility is to sell the concession. By the laws being considered in Congress, we could transform everything into authorization.”

Another issue is that there is still no definitive federal law that allows the authorization model, although there is a Provisional Measure (MP) in effect. In parallel, there is also a bill on the matter. When contacted, the Ministry of Infrastructure said that authorizations granted during the validity of the MP are perfected legal acts and, if the project is approved, there will be legal certainty.

Ferroeste works with the scenario that by the end of 2021, before the public consultation, the final standard will be approved. Mr. Fagundes says there is a plan B: carrying out the entire project as a sub-concession.

The second factor still pending is environmental licensing. Ferroeste has sought to speed up the process — the studies have already been completed and, in the next few days, they will be forwarded to federal environmental agency Ibama. The government wants to have a prior permit before the auction to provide more security.

In the market, there are doubts about the project’s feasibility, especially via authorization — without public funds or support. One source recalls that building a large-scale railroad is difficult even with taxpayer money, let alone without it. Another person, who also spoke on condition of anonymity, says that the authorization model tends to work more when the investor is the owner of the cargo or a operator already established in the country – but these would not be interested in the project.

For Bernardo Figueiredo, a former general director of ANTT (National Land Transport Agency), it is a good project, but one unlikely to materialize without taxpayer money. “It’s a necessary connection, which makes the greatest economic sense. My question is whether it will stand as a purely private-sector investment.” He observes that, in addition to financing, there is an enormous execution challenge in the work to descend from the mountains to the port. “It is a heavy, risky investment. It would need some government participation.”

Asked about the difficulty in attracting investors under these conditions, Mr. Fagundes says that he has had a positive return so far. “Investors go for what is good, the market knows how to identify opportunities. In some cultures, the issue of concession, of having reversible assets [returned to the government at the end of the contract], of rebalancing, is a trauma. The American, the Chinese don’t understand that. The authorization gives great comfort.”

The plan is for Nova Ferroeste to start being built by the mountain slope to the port of Paranaguá, so that revenue can already begin to be generated — in the first year of operation, 38 million tonnes are expected to be moved through it. With the railroad already mature, the perspective is that the capacity will reach 85 million tonnes per year. The main cargoes transported would be soy and corn, followed by soybean meal and animal protein.

Source: *Valor international*

<https://valorinternational.globo.com/>

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PRICES OF IMPORTS RISE DRIVEN BY PRODUCTION BOTTLENECKS

Reflecting the logistical and production bottlenecks that persist around the world, average prices of imports in dollar have accelerated in recent months and surpassed those of the pre-pandemic period. From August to October, the average prices of Brazilian imports rose 23.2% year-on-year and 14.8% when compared to the same period in 2019.

In October, the price index of the total imported was the highest for the same month since 2013. The data are from the Indicator of Foreign Trade (Icomex) and are part of a bulletin to be released Thursday by Fundação Getulio Vargas’s Brazilian Institute of Economics (Ibre-FGV).

This behavior helps to flatten the terms of trade — measure of a country’s export prices relative to its import prices — and the trade balance results, even though a robust surplus is expected for 2021. The median by Valor Data, with projections collected in the last week with 11 consulting and financial firms, indicates a surplus of \$65 billion at the end of this year.

The most recent rise in imports prices combined with the weakened real also raises concern about inflation. According to economist Lia Valls, the combination maintains cost pressure, although the size of its effects depends on how this will be absorbed and if it will be passed on to prices.

The performance of import prices in recent months changes the dynamics of external purchases, whose recovery had been driven more by the increase in imported volumes, recalls Ms. Valls.

Brazilian imports totaled \$177.3 billion from January to October this year, up 38.3% year over year, according to data from the federal government. In this period, indicates the Icomex, it was the imported volume that had the greatest contribution to this advance, with an expansion of 24.7%, while prices rose by 10.9%.

In monthly comparisons with the same period last year, prices fell in the first two months and, after some stability, started to rise from April, going up above 20% as of August.

This movement contributed to reducing the terms of trade, which had been on an upward trend since June 2020, with a clearer fall since August. Even so, says Ms. Valls, considering the period from January to October, this ratio is still 17.5% above last year.

In the same comparison, she points out, export prices rose 30%. The flattening of the terms of trade, says Ms. Valls, is also a result of the slowdown in export prices due to adjustments in important products shipped by Brazil, such as iron ore.

On the imports side, says Yasmin Riveli, an economist at Tendências Consultoria, stronger prices should continue in the short term. There is, she explains, a generalized increase in prices in Brazil and in the international market as a result of supply shocks resulting from breaks in the production chain, mainly in the energy sector.

Among intermediate goods, Ms. Riveli highlights fertilizers, which are expected to maintain high demand due to the favorable expectation for grains in the 2021/2022 season. There is a lot of dependence on imports in this segment, says the economist, and the prices of these products are influenced by the expressive increase in the prices of potash and natural gas.

There is also, she says, the rise in oil prices and its impact on fuel oils and petroleum derivatives. Oil continues to have high prices due to falling stocks and the decision of producing countries to continue with modest increases in production until April 2022, in addition to the resumption of global demand and the sharp rise in prices also for substitute products, such as natural gas and coal.

The increase in import prices, according to José Augusto de Castro, head of the Brazilian Foreign Trade Association (AEB), will continue until the logistical and production bottlenecks are overcome around the world, a scenario that should last at least until the first quarter of next year.

The impact of import prices on inflation, said Luis Otávio de Souza Leal, chief economist at Banco Alfa, depends on how the cost pressure is absorbed. In the agricultural sector, there are variables, such as productivity, he points out, that are also important. In industrial goods, the data show that

there may be cost pressure despite an expected demand directed from goods to services, making the return to a level of inflation closer to 5% per year more gradual than imagined.

Source: *Valor international*

<https://valorinternational.globo.com/>

November 18, 2021

LATIN AMERICA CAN FILL SPACE LEFT BY CHINA IN STEEL MARKET

China's measures to restrict steel production in 2021 may be an opportunity for producers in Latin America in the coming years, said Máximo Vedoya, head of the Latin American Steel Association (Alacero). The executive warns, however, that to grab the space left by the Chinese, companies in the region must invest in products with greater added value and in the reduction of greenhouse gas emissions.

"Companies have to invest in solutions for decarbonization. We have an advantage, but other regions are betting on cleaner processes with the help of governments," said Mr. Vedoya, who is also Ternium's CEO. According to him, steelmakers in Latin America emit 1.6 tonnes of CO₂ for each tonne of steel produced. This volume is 10% to 15% lower than that of European companies and 25% lower than that of Chinese companies.

Mr. Vedoya said that, on the other hand, governments in Europe, the United States and Canada are investing together with companies in their countries in the development of a more efficient production process. For that reason, they can take advantage of this race for the market China is leaving behind. "I'm not asking Latin American governments to invest directly in companies, but we have to find ways to move forward on this issue of decarbonization."

According to Mr. Vedoya, support from the region's governments could come in the form of investments in infrastructure, such as in the supply of natural gas and clear rules for attracting resources for renewable energy. "You have to facilitate these processes in Latin America. This will give us conditions to compete with other markets."

Brazil, which has a cleaner power generation mix than others in the region, must review structures for the supply of natural gas, seen as the transition fuel to steelmakers free from CO₂ emissions, he said.

"Brazil has natural gas but it is still expensive and there is no efficient distribution infrastructure. Argentina, on the other hand, has to invest in renewable energy, as does Mexico," he said. "Each country has a different issue, but they all share the same vision: to foster a cleaner steel industry."

Decarbonization will be one topic discussed at the Alacero Congress. Mr. Vedoya said that companies will sign a commitment to reduce emissions with targets for 2030 and 2050. “In this document, we are going to show the way for companies to achieve carbon neutrality,” he said. “In Brazil, for example, steelmakers can invest in charcoal, biomass, natural gas, biomethane and intensify the use of scrap. These are technologies that are available for implementation by 2030.”

As for estimates of apparent steel consumption in the Latin American market next year, Mr. Vedoya was more conservative and said the pace of growth would be slower, but on a high basis. In 2021, the association expects an increase in demand in the region of up to 20%, reaching 70 million tonnes of steel products.

“This year, apparent consumption has recovered a lot after the pandemic. Brazil should have a growth of 24%, compared with 12% in Mexico,” he said. “For the next year, we estimate that it will grow less, mainly because the normalization of demands in the value chains has already occurred.”

Source: *Valor international*

<https://valorinternational.globo.com/>

November 19, 2021

BMW TO INVEST R\$500M IN BRAZIL AS ELECTRIC CARS TAKE BACK SEAT

In Europe, BMW group has been one of the boldest companies in planning to reduce the production of vehicles powered by fossil fuels. But, when announcing Thursday its next investment in Brazil – still focused on the production of combustion cars – the German company officers adopted a sincere tone to say that the speed of the electrification of vehicles cannot be the same in all countries and that Brazil is still behind in battery charging infrastructure.

Although the announced R\$500 million investments in the Araquari plant, Santa Catarina, in the next three years were good news, the automotive company officers frustrated expectations by not including projects for electric or hybrid cars in the plan. After all, BMW is not only the leader of the premium car segment in Brazil but also one of the leaders in the electrification of vehicles – in this case, with imported cars.

The resources will be used for the renewal of models, the production of an entirely new car – whose features are kept secret and will be soon announced by the company’s headquarters in Germany – and the development of local engineering.

Recently, BMW announced that it expects electrified vehicles to be around 50% of sales by 2030. But it has lately made it clear that the numbers may vary depending on each market and how far each country evolves in terms of expanding battery charging infrastructure.

It is clear, however, that the company founded 105 years ago supports a radical shift to zero-emission vehicles. “At the end of the day, we know that vehicles will have to be electric,” said Alexander Wehr, BMW’s CEO for Latin America.

“In Europe, billions of euros have been spent [on electrification] because the rules [of emissions] are tight,” said the German executive, who lives in Mexico and came to the Santa Catarina plant to announce the new investment. For him, the electrification of vehicles incentives doesn’t necessarily have to be financial, but it establishes a “new business plan.” The company listed actions taken in the Araquari plant to reduce Co2 in the manufacturing process.

In Araquari, BMW will produce all combustion-powered versions of the new generations of the X3 and X4 models. But it did not reveal any details about which will be the new car foreseen in the same investment plan.

Some automakers have shown their intention to make Brazil an automaking hub for combustion vehicles for the domestic market and for export to countries where electrification will take longer. At first glance, BMW could be one but it’s not the case here. Exports are not yet in the German company’s plans. “We are analyzing the opportunities,” says the company’s CEO in Brazil, Aksel Krieger.

There are no plans to increase the production capacity of the plant, which is 32,000 vehicles per year. This year’s production of 10,000 vehicles should be repeated in 2022, Mr. Krieger added.

BMW’s Santa Catarina unit employs 700 of nearly 1,000 Brazilian employees and has different characteristics than the plant in San Luis Potosí, Mexico. Inaugurated in 2019 and with about 3,000 employees, the Mexican operation sells almost 90% of its production to foreign markets.

Since it was inaugurated in September 2014, the plant in Santa Catarina has received R\$1.8 billion in investments, including the plan announced Thursday. It is one of four luxury car factories built when the Brazilian government created extra taxes on cars imported by automakers without factories in the country.

After the impasse around the tax benefits promised by the government, two automakers decided to end the production in the country this year: Audi and Mercedes-Benz. Audi left the place it shared with Volkswagen’s plant in São José dos Pinhais, Paraná, and Mercedes recently sold the plant in

Iracemápolis, São Paulo, to the Chinese automaker Great Wall. But BMW and Land Rover, who has a plant in Itatiaia, Rio de Janeiro, decided to stay.

In a visit to Brazil three months ago, Mr. Wehr said BMW had learned from Latin America's volatility. When announcing the new investment Thursday, the executive acknowledged the difficulty of macroeconomic variables, such as high interest rates, devaluation of the local currency and inflationary pressure. "But this is part of the game," he said. According to the executive, Brazil has already shown the potential to be a bigger market than it is today. Therefore, it is a "strategic region in the long term." "We are committed to this country."

Source: *Valor international*

<https://valorinternational.globo.com/>

November 19, 2021

EU PRESSURED TO EXTEND ZERO-DEFORESTATION RULE

Part of Cerrado and Pantanal wetlands were left out of the European Union (EU) proposal to ban the import of various commodities from deforested lands, but this situation may be short-lived.

Members of the European Parliament demanded Thursday from the EU Commissioner for the Environment, Virginijus Sinkevicius, that future European regulation should extend the requirement of "zero deforestation" to more products, and to those from other ecosystems with high biodiversity value.

The commissioner explained the definition used by the EU. In the proposal, "deforestation" means the conversion of forest to agricultural use, whether or not human-induced; and "forest" means land larger than 0.5 hectares with trees higher than five meters and canopy cover of more than 10%, or trees capable of reaching those thresholds, excluding agricultural plantations and land under agricultural or urban use.

This definition does not include Pantanal yet, but it includes one part of Cerrado, all depending on the 10% threshold, and this has an impact on exporters.

"As for products from Cerrado areas, which may come under the definition of forest, it would be necessary to segregate them from other areas' products according to production's geolocation, and present due diligence documentation upon importation," said Emily Rees, director of the consultancy Trade Strategies in Brussels.

In the European Parliament, Commissioner Sinkevicius insisted that “there will be no ban against any country or any commodity. Deforestation-free producers, even from high-risk areas, will still be able to sell their products to the EU if they can demonstrate that their products meet the requirements of the regulation.”

Dutch MEP Anja Hazekamp (Green Left) said “the regulation has to include the (whole) Cerrado.” Debora Burkhardt, from the German Socialist Party, said that rubber and corn must be included. There was also a call for more defense of indigenous lands.

The commissioner replied that the regulation “will ensure that no goods or products originating from deforestation or degradation of forests on lands inhabited by indigenous peoples will be allowed to enter the European market.”

He also cited actions in place, like the ongoing search for commitments from markets like the U.S. and China to clean up their supply chains, and a greater commitment to forest protection by producing countries, promising help in the transition towards sustainability.

The preliminary assessment by sectors of the Brazilian government is that the European regulation is punitive against tropical producers. In addition to the EU proposal, last week the British Parliament passed a law that includes a ban on the use of certain forest risk commodities in commercial activities in the United Kingdom unless local production regulations regarding land use and deforestation are met.

Source: *Valor International*

<https://valorinternational.globo.com/>

November 22, 2021

ENERGY IMPORTS GROW 63% AFTER WATER CRISIS IN BRAZIL

The water crisis made electricity imports soar. The lack of rain has led Brazil to buy more energy from neighbors such as Argentina and Uruguay, in contrast to fewer imports from Paraguay, whose binational Itaipu plant also suffers from hydrological shortages. Experts believe, however, that this pace tends to decrease with the prospect of more rain, an increase in the level of reservoirs, and greater generation from hydroelectric plants.

Data from the Economy Ministry show that from January to October 2021 electricity purchases grew 63.8%, compared to the same period last year.

This year's scenario contrasts with last year, when electricity imports dropped 4.8% from January to October, compared to the same period in 2019. In the pre-pandemic year, electricity imports had fallen 11 %.

The record for electricity imports occurred in October this year, when Brazil bought \$344 million from its neighbors, surpassing the previous peak in February, when it had purchased \$311 million.

“The lack of rain, and the resulting water crisis, explains this scenario. Sales from Argentina and Uruguay only occur when prices here are very high, because these countries generally provide cheap generators for their domestic market and expensive ones for export,” says Roberto Brandão, a researcher at the Electric Sector Study Group (Gesel), at the Federal University of Rio de Janeiro (UFRJ).

Mr. Brandão says that until three months ago Brazil only bought from Argentina and Uruguay when it stopped operating an expensive thermoelectric plant here in order to import electricity generated in one abroad, which was cheaper.

“Since then, however, both the most expensive plants here and the expensive imported ones have been used,” says the researcher, recalling that the hydrological situation in Brazil has improved in recent weeks.

Today, Brazil buys less from Paraguay and imports much more from Argentina and Uruguay. Between January and October, Brazil purchased \$670 million from Argentina, an increase of 7,504% compared to the same period last year. It also imported \$266 million from Uruguay, an increase of 3,785%, and \$1.08 billion from Paraguay, representing a decrease of 10.8%.

The numbers follow a trend that began last year, when Brazil imported \$34.6 million from Argentina, 1.183% more than in 2019, \$21.1 million from Uruguay, 18.4% more than in the previous year, and \$1.45 billion from Paraguay, which represented a 3.1% drop year-on-year.

As a result, Argentina's energy rose to 33.1% of total imported energy in the period from January to October this year from 2.29% in 2020, while Uruguay's rose to 13.1% from 1.39%, and that of Paraguay fell to 53.8% from 96.3%. Imports, which accounted for 0.52% of the country's consumption last year, now represent 1.01%, according to data from the Electric Energy Trading Chamber (CCEE).

Brazil has always imported from neighbors, which act as a backup for the country, according to specialists, but it was something smaller. “We only contract the surplus energy from these countries when we are in a situation of shortage,” says Luiz Eduardo Barata, former director of the Operator of National Electric System (ONS).

This is because the price of energy coming from Argentina and Uruguay is much higher than that from Itaipu. While the average tariff for energy coming from Uruguay this week could reach R\$1,796/megawatt-hour (MWh), that of Argentina could be R\$1,534.21/MWh, according to calculations made based on data provided by ONS.

The average tariff for Itaipu is R\$ 196.19/MWh (\$35/MWh), according to Edvaldo Santana, former director of the Brazilian Electricity Regulatory Agency (Aneel).

Last month, Aneel approved the tariff recomposition of the gas-fired thermoelectric power plants of Araucária, in Paraná, and Potiguar and Potiguar III, in Rio Grande do Norte, powered by diesel. In the case of Araucária, the tariff is now R\$2,553.20/MWh, while in Potiguar and Potiguar III, it is R\$1,379.89/MWh.

In the emergency energy auction for contracting electricity to be delivered to the system between May 2022 and December 2025, the average contracting price of thermal plants was R\$1,563.61/MWh.

Mr. Barata claims that Itaipu lost its role in the total imported energy because it has been facing problems similar to those in Brazil, with lack of rain. The plant generated 79,445 GWh in 2019, 76,382 GWh in 2020, and 48,110 GWh from January to September this year, according to information on the Itaipu Binacional website.

“We have been living in crisis for some years. Every time we get over a difficult situation, instead of taking precautions, we think it won’t happen again. But every year the conditions have become more adverse than in the previous year,” says Mr. Barata.

The medium-term perspective, however, is that Brazil imports less electricity from its neighbors. “It had been a long time since Argentina had exported such large volumes of electricity to Brazil. This has increased from 2020 to now, but it is a situation that should not continue,” says Gustavo Perego, head of the Abeceb consultancy, in Buenos Aires.

According to Mr. Perego, the expectation is that from now until May or June, Argentina will export another \$300 million in electricity to Brazil. “But from the second half of 2022 onwards, Brazil’s water structure should start to recover, and this will make our exports decrease,” he says.

In addition, says Mr. Perego, with the reform of the Brazilian electricity sector and the projection of greater production from gas plants, the forecast is that Argentina will export less electricity and more gas to Brazil in the future.

“We have empty reservoirs, we are having to buy energy from everywhere,” says Adriano Pires, president of the Brazilian Infrastructure Center (CBIE). “But I don’t know if that will hold. In December comes the energy generated at the plants in the North, which starts to decrease in April and May. For now, low temperatures and low economic activity help, but we may be contracting rationing for next year.”

Source: *Valor International*

<https://valorinternational.globo.com/>

November 23, 2021

ENERGY IMPORTS GROW 63% AFTER WATER CRISIS IN BRAZIL

The new concession contract of the railroad managed by MRS Logística foresees investments of R\$9.7 billion and 280 railroad works in 51 cities, including the segregation of 90 kilometers of rails shared with CPTM passenger trains in the metropolitan area of São Paulo. In the access to the Port of Santos (São Paulo state), the cargo handling capacity will increase to 110 million tonnes from the current 51 million.

Recently approved by the National Land Transport Agency (ANTT), the anticipated renewal of the contract was sent on October 21 for a last fine-tooth comb by the public spending watchdog TCU, which has already approved the modeling. The concession, which expires in 2026, should be renewed in advance for 30 years. After the body’s conclusive approval, the process goes to the Ministry of Infrastructure, which is authorized to sign the new contract.

“We expect the signature in the first four months of 2022,” says MRS CEO, Guilherme Segalla de Mello, to Valor. Most of the investments negotiated with the government in exchange for the extension – R\$ 5.4 billion – will go to improvements within the network itself, purchase of rolling stock (wagons and locomotives), modernization to meet performance criteria established in the new contract.

Another R\$4.3 billion will go to free concessions, which the Ministry decided to use for works of public interest and the elimination of urban conflicts, such as encroachments on the right-of-way and critical level crossings (when the railroad crosses streets or avenues in the middle of the city).

It is within this second part that the separation of tracks on CPTM’s 7-Rubi, 10-Turquesa and 12-Safira lines will take place. Today, freight and passenger trains share the same corridors. This turns the crossing of Greater São Paulo into a logistical nightmare, with MRS trains having to use idle windows – especially during the early morning hours – to cross the metropolitan region.

There will be track segregation – in practice, the construction of new rail lines parallel to the existing ones – on 90 kilometers of the currently shared network. Only a small stretch will continue to be shared between MRS and CPTM. “The coexistence [of freight trains and passenger trains] will be of six kilometers,” between two neighborhoods, says Mr. Mello.

In addition to making both operations more dynamic, this “doubling” of the tracks will make the Intercity Train (TIC) feasible, a state government project to create an express passenger service connecting the cities of São Paulo, Jundiaí and Campinas.

The TIC ended a public consultation process last month, and the dream of Governor João Doria’s administration is to auction this fast train by the end of 2022. Without the separation of the tracks, this would be technically impossible.

The segregation works should take up to ten years, says Mr. Mello, because they will need to be executed essentially in the time window between midnight and 5 a.m., when there are not so many trains running, so to reduce the danger of the works. However, if permission is granted for the work to be carried out on weekends, this deadline can be brought forward.

The project to build an outer railroad ring in São Paulo, an idea that dates back to the 1960s, lost momentum until it was abandoned by the parties involved in the contract renewal. Several reasons weighed on the decision: complicated topography, environmental difficulties, uncertainty about expropriations, and engineering risk. In the end, according to Mello, nobody knew if the money from the free concession would be enough to finance the project. The solution adopted, in his words, generates “tangible gains with limited resources.”

The process of early renewal of the MRS contract began in April 2016, at the end of the Rousseff government, and went through the Temer administration. It was even scheduled for 2018 or 2019, but the delay did not lead to complaints. “We used time well to increase project maturity. Any project done well now leads to time savings later on.”

Source: *Valor International*

<https://valorinternational.globo.com/>

November 24, 2021

ENERGY IMPORTS GROW 63% AFTER WATER CRISIS IN BRAZIL

The Brazilian petrochemical industry has embraced the energy transition, either because of the more competitive costs of renewable energy today, or to reduce its carbon footprint and meet climate commitments for the coming decades.

Considering the four large petrochemical companies operating in the country – Braskem, Dow, Unipar and Unigel – there are already at least R\$5.3 billion considering long-term contracts for the purchase of solar and wind energy or investments in self-production announced since 2020 – and this figure will grow soon.

Unipar already has two agreements of this nature (with AES Brasil and Atlas Renewable Energy) and intends to generate 70% of the energy it consumes in the country, all from renewable sources. Unigel, which has a partnership with Casa dos Ventos, and Dow, which has signed contracts with Casa dos Ventos and Atlas, are also studying new projects.

With four partnerships in Brazil (with EDF Renewable, Voltalia, Canadian Solar and Casa dos Ventos), Braskem maintains its bet on the transformation of the power generation mix as one of the paths towards carbon neutrality by 2050. With the agreements, the largest thermoplastic resin maker in the Americas has contracted more than 100 average megawatts from solar and wind sources.

“We have improved our costs and turned the company more sustainable by increasing the share of renewable sources in the energy mix. This year, we already have 50% contracted and our goal is to reach 70% of renewable energy contracted for the Brazilian operation,” said Unipar’s CEO Mauricio Russomanno.

For the electricity companies, the petrochemical sector’s growing interest in renewable energy has been helping to make large projects feasible in the free energy market. The petrochemical companies are usually top tier customers for energy sales, and often serve as anchors, ensuring the bankability of the projects.

In addition to the traditional PPAs (power purchase agreements), the industry has become increasingly interested in self-production arrangements. This model includes the creation of a partnership between the power generation company and the consumer, which brings additional advantages to the deal.

Besides being able to reduce the cost of energy with a long-term contract – by becoming a self-producer – the consumer is also free from some sectorial charges. This makes the price of energy “unbeatable,” said Rogério Jorge, head of customer relations at AES Brasil. “The benefit is so great that the investment pays off in the medium term.”

Apart from solar and renewable energy, the chemical industry in Brazil uses biomass to generate energy. More than a decade ago, Solvay’s Rhodia invested in cogeneration from sugarcane bagasse and reforested wood to generate steam and electricity in the countryside of São Paulo. During the

sugar cane harvest, the Brazilian operation is self-sufficient in power. The unit has 70 MW of installed power.

Electro-intensive industries around the world have accelerated the contracting of clean source energy, but Brazil should widen the gap with other countries. According to Empresa de Pesquisa Energética (EPE), the use of renewable sources in the Brazilian power generation mix was at 46% in 2019, well above the world average of 14.2%.

According to the partner-founder of MaxiQuim consulting, João Luiz Zuñeda, this movement is seen around the world and was already expected, since the chemical industry is not as well positioned as other sectors, such as biofuels, for the future low-carbon economy.

“There is an important discussion about carbon credits and this will represent a cost for companies that do not seek ways to reduce net emissions. In petrochemicals, the concern is not with the carbon that is used as raw material, but with what is used as power,” says Mr. Zuñeda.

Specifically at Braskem, Mr. Zuñeda said, the combination of clean energy and the use of raw materials from renewable sources – the company is the world’s largest producer of biopolymers – may even result in a positive balance in the future.

One of the largest investors in wind power in the country, Casa dos Ventos has in its portfolio heavyweights from the petrochemical industry. In the last year alone, it signed long-term contracts with Dow, Unigel and Braskem to supply energy from two wind complexes under construction, Rio do Vento (Rio Grande do Norte) and Babilônia Sul (Bahia).

The projects under construction by Casa dos Ventos, which will also serve other electro-intensive clients, add up to 1.3 GW of installed capacity and R\$6.5 billion in investments. In all of them, the company offers the possibility for consumers to become partners of the plants, fitting into the self-production model.

Another generation company seeking to expand its renewable portfolio, AES Brasil has signed its first energy self-production project with Unipar. Signed in 2019, the agreement was a milestone in the electric company’s trajectory – from it, it was able to start the Tucano wind complex, in Bahia, a venture that will have a total capacity of 580 MW. As for the partnership with Unipar, the companies created a joint venture for a 155 MW wind farm, equivalent to 78 average MW.

“This market effort in search of renewable energy supply alternatives began in 2018 and 2019, gaining a lot of momentum in 2020 and 2021. Currently, the market is very heated and practically all electro-

intensive companies are negotiating some renewable energy project or still have already one contracted,” says Mr. Jorge, head of AES.

Currently, the deals closed between generation companies and consumers in the free energy market, called ACL, are the flagship of the expansion of Brazil’s power generation mix. According to a survey by Abraceel (the sellers’ association), 70% of the generation projects under construction in the country are destined for the free environment.

Source: *Valor International*

<https://valorinternational.globo.com/>
