

NEWSLETTER

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BRAZIL IMPORTS MORE FROM CHINA DRIVEN BY SOLAR POWER, AGRICULTURAL INPUTS

Growth of 35.1% between January and August exceeds average rise of foreign purchases

Taking advantage of the expansion of solar power in Brazil and the demand for agricultural inputs, Chinese imports this year have advanced more than the average of Brazil's total imports. From January to August this year, imports of products made in China totaled \$39.74 billion, up 35.1% compared to last year and 63.8% compared to 2019, the pre-pandemic period. The average of total Brazilian foreign purchases grew 32.3% and 44.3%, respectively.

Data from the Foreign Trade Secretariat (Secex/ME) show that imports of Chinese products were driven by solar panels and equipment and agricultural inputs. These two groups totaled \$8 billion in foreign purchases from January to August, or 20% of Chinese products that arrived in the period. That means \$5.12 billion more in imports of these Chinese products, nearly half of the growth of \$10.3 billion in purchases from the Asian country this year compared with the same period last year.

The first in the ranking of Chinese items most imported by the country are electrical and electronic equipment and devices that total \$3.55 billion, of which 95% are solar or photovoltaic modules or panels. The amount represents 8.9% of the total bought from China in the first eight months of this year. It is also more than double the \$1.43 billion imported in the same period last year, and five times the \$700 million of 2019, always considering the January-August period.

More than increasing exports, China is virtually the only foreign supplier of these items for now. It sold Brazil 95% of what the country imported from January to August in photovoltaic modules and panels.

Chinese suppliers take advantage of a moment of expansion of renewable power sources in Brazil at the same time that the Asian country has sought to diversify its own power generation mix, said José Augusto de Castro, head of the Brazilian Foreign Trade Association (AEB). With the plan of becoming carbon neutral by 2060, China bets in solar power within a plan to foster the development of technologies in this field and the diversification in exports of products linked to renewable sources, Mr. Castro said.

Data from the Brazilian Electricity Regulatory Agency (ANEEL) and the Brazilian Photovoltaic Solar Energy Association (Absolar) show the advance of solar power in Brazil. The country's installed capacity in this source jumped to 18.65 GW in August from 13.82 GW in 2021. Photovoltaic energy currently accounts for 9.1% of Brazil's power generation mix. According to ANEEL, Brazil surpassed 185 GW in power generation capacity in August. Of the 650.14 MW of power increase this month, 57% came from solar plants.

Rafael Cagnin, an economist at the Institute for Industrial Development Studies (Iedi), also recalled the so-called taxation of the sun should come into effect as of 2023, bringing taxation that does not exist today for those who install solar panels at home. This may have accelerated the installation of the photovoltaic system in 2022, not only because of the tax benefit foreseen for those who adopt the source until January of next year, but also stimulated by the high cost of energy in Brazil. "We must remember that China has an almost unbeatable competitiveness in the production of solar panels in the world."

Another group that draws attention in Chinese imports this year is insecticides, fungicides, herbicides, fertilizers, and their raw materials. Imports of these agricultural inputs totaled at least \$4.46 billion between January and August, three times the amount seen last year (\$1.45 billion) and more than four times the amount seen in 2019 (\$1 billion) in the same period.

Mr. Castro considers surprising that China, a major destination for Brazilian soybeans, now stands out in the supply of agricultural inputs to Brazil. The picture, said Mr. Cagnin, is explained by the shortage of these products in the world, intensified by the war between Ukraine and Russia, and by Brazil's great dependence on these items. According to government data, cited by the economist from IEDI, 85% of the internal demand for fertilizers is met by imports.

Source: Valor International
<https://valorinternational.globo.com/>

10/04/2022

INDUSTRIAL COST SLOWS DOWN BUT INFLATION WILL STILL BE HIGH

Central Bank's median projections for industrial goods inflation are 9.2% for 2022 and 3.8% next year

Inflation of industrial goods, especially those linked to the economic cycle, accelerated again recently, reinforcing the perception among economists that the cooling of industry costs will help bring the country's official inflation (IPCA) down this year. This will still be a gradual process, though, and industrial prices are still expected to remain historically high in 2022.

With the disorganization of the global production chains after the pandemic shock, the cost of the local industry ranged from 1.46% in the year to May 2020 to 36.37% in May 2021, a record acceleration since records began in 2006, a study by Bradesco shows. Based on a methodology suggested by the Central Bank, the bank's economists have built an index of the cost of inputs in the Brazilian manufacturing industry.

According to the Brazilian Institute of Geography and Statistics (IBGE), a little more than 80% of the costs with inputs are local goods, but even in these cases, several of them have a defined price in the global market, notes Bradesco. This is the case of oil and its products, whose weight is almost 15% of the total cost of industry inputs, notes the bank. "In this period, from May 2020 to May last year, the price of oil, its products, fuels in general and semi-finished products, rolled products and steel pipes were the main causes for the rise in costs," Bradesco economists Marcelo Gazzano and Myriã Bast wrote.

In August 2022, the industry's cost still varied by almost 21%, they calculate. "We are seeing a normalization, but coming from a very high base," said Mr. Gazzano. "At the point it is, it's not enough. It must keep improving, it should not stagnate now," said Ms. Bast.

September data from Bradesco's proprietary survey of 3,000 companies indicate that this improvement continued last month, said Ms. Bast. In another metric for the industry cost index, considering a six-month period and a year, the variation in August is already lower, at 15%, said Mr. Gazzano.

In the September forecast, industrial goods inflation accelerated again to 0.32%, against 0.28% in the August IPCA-15, according to MCM Consultores. Underlying industrial goods, which do not include items with more volatile prices such as ethanol and cigarettes, went to 1.02% from 0.91%. In 12 months, the general inflation of industrial goods even decreased to 11.88% in September from 12.77% in the August preview, but the underlying inflation went to 13.83% from 13.48%.

In the Focus bulletin, the Central Bank's survey with market analysts, the median projections for industrial goods inflation are 9.2% at the end of this year and 3.8% next year.

Bradesco projects industrial goods inflation at 9.2% this year, from 12% in 2021, but believes it could be just under 3% in 2023. "If nothing changes and it follows a trajectory like we are seeing in the fiscal year, we could have the

industrial IPCA settling around 5% next year. But in our scenario, this will continue to adjust, so this is not our official projection,” said Mr. Gazzano.

The “stress indicator” of global chains drawn up by UBS’s global research team and Evidence Lab was 1.2 standard deviations from normal in August this year, the Swiss bank said in a report. By October 2021, this indicator had reached 5 standard deviations. The UBS BB team that follows Brazil highlights that August was the fifth consecutive month of improvement of the global indicator, signaling future normalization of goods inflation also in the country.

According to UBS BB’s calculations, the deceleration of goods prices accounts for more than 1 percentage point of the expected deceleration of the IPCA until the end of the year. UBS BB projects IPCA at 5.7% in 2022 and 4% in 2023, with industrial goods at 8.4% and 0.7%, respectively.

“Everything that happened in the pandemic and also because of the war between Ukraine and Russia is hindering a clearer deceleration of industrial goods. More recently, in the second half of the year, we are seeing partial rearrangement of the production chains and commodity prices losing strength. This contributes to a less arid formation of industrial prices,” said Fábio Romão, an economist from the consulting company.

He projects 9.8% for industrial inflation in 2022 and 5.4% in 2023. “There is the prospect that global economic activity will lose strength next year, which signals that industrials will slow down. We may have from 2023 onwards a rate of evolution of industrial prices that is not so different from the index,” he said.

In the September Inflation Report (IR), released last week, however, the Central Bank estimated that the normalization of production chains in Brazil was slower than the global average as of May this year, even though it maintains the rebalancing trend. In addition, the monetary authority warned that new shocks, especially lockdowns to combat the transmission of Covid-19 in China or problems arising from the war between Russia and Ukraine, may interrupt the normalization trajectory in the world and Brazil.

Source: Valor International
<https://valorinternational.globo.com/>

10/05/2022

PAPIRUS SETS UP NEW STRATEGIC PLAN, MULLS EXPANSION

Company will have a sustainability and circular economy vision

Papirus, one of the most traditional Brazilian manufacturers of paperboard, is discussing a new long-term strategic plan with a sustainability and circular economy vision, which may culminate in a future expansion project with substantial investments.

The company, which has been operating at full capacity since the end of 2019, is concluding an investment package of around R\$40 million to expand the production capacity in Limeira, São Paulo, to 115,000 tonnes per year in 2023, from 96,000 tonnes in 2019. According to the company, the capacity has already increased in 2022, to 105,000 tonnes per year.

“Apparently, the current machines do not allow a new round of growth and the investment would have to be much higher. We are studying how to do that and if we will set up a new expansion project,” Papirus Co-CEO Amando Varela told Valor.

Founded 70 years ago by the Ramenzoni family, the company hired Falconi Consultoria to help in the strategic planning for the next five years. The consulting firm participated in the preparation of the previous plan, in 2018.

Mr. Varela, the company’s chief commercial and marketing officer as well, told Valor that Papirus reached a new level in terms of financial results, which allows looking at the possibilities of improving efficiency and costs – and expansion.

The company does not disclose EBITDA figures. The projected revenue for 2022 is R\$750 million, compared to R\$460 million last year. Higher sales volume and higher prices boosted the results.

If the company decides to pursue a larger growth project, it will evaluate all available financing alternatives, including the eventual arrival of a new partner or an IPO. “We know there is potential for growth, but the decision is up to the shareholder,” he said.

Having concluded the first round of strategic planning discussions, it is time now to detail the potential expansion project. This stage will take at least six months.

Growth potential, both of the market and Papirus, comes from the increasingly stronger demand for more sustainable packaging. However, it is still necessary to develop barriers – which protect the packaging and its contents – that are more sustainable and make plastic replacement possible.

It will also be necessary to expand the collection of packaging and remove it from the environment. “Looking ahead, there is a lot of opportunity in sustainable packaging, but collecting it from the environment,” he said. To this end, the company is expected to expand partnerships with the so-called cleantechs, following the example of the pioneering recycling credit project already started with Polen.

According to Mr. Varela, the company tends to stand out by making cardboard with an increasing share of recycled content. Today, the use of recovered scrap by Papirus is around 35% to 40%. The company plans to reach 60%.

To assure that there will be demand for a more sustainable cardboard, the company has held talks with consumption companies that are clients of the printing companies to which Papirus supplies paper. “Large brands have established goals for the use of recycled content, and we want to approach these consumers,” he said.

Source: Valor International
<https://valorinternational.globo.com/>

10/06/2022

SERVICES DRIVE EMPLOYMENT INDICATOR UP

IAEmp rose 1.5 points in September compared to August, strongest rise since April

Influenced by good results in services, the largest employer in the economy, the employment leading indicator (IAEmp) rose 1.5 points in September compared to August, to 83.8 points. It was the strongest rise since April 2022 (4.5 points) and took the indicator to the highest level since October last year (87.1 points), said Fundação Getulio Vargas (FGV) on Wednesday.

When detailing the result, Rodolpho Tobler, the FGV economist in charge of the indicator, recalled that services are currently undergoing a process of recovery – after the “thump” suffered by the sector during the most acute period of the pandemic, which began in 2020. However, when questioned about the continuity of the IAEmp’s high, he was cautious. In practice, the sustainability of greater openings, as well as the positive balance of the indicator, will depend on the trajectory of the economy, which still has many uncertainties for the future, especially for 2023, he noted.

When detailing the behavior of the September indicator, Mr. Tobler pondered that, in his understanding, the good performance of the IAEmp reflects what has been happening in employment, and in the economy, in recent months. There has been an improvement in the health outlook related to the pandemic, with an advance in vaccination against Covid-19 and, consequently, a reduction in the rate of cases and deaths. This has pushed more consumers to face-to-face activities, which were heavily restricted during the pandemic.

This aspect, he noted, has mainly benefited the services economy, which has a higher “face-to-face” profile, such as bars, hotels, restaurants, and tourism, among other activities. Therefore, this sector has been recovering month

by month, which boosted the economy as a whole. On the supply side, the services activity represents more than 70% of the Brazilian GDP, reminded Mr. Tobler

At the same time, the outlook of recovery in services favors employment, since the sector generates many jobs, acknowledged Mr. Tobler. “In the IAEmp, we had a total high of 8.8 points in six months [until September],” he says, while illustrating the impact that services had on the indicator in recent months. “The economy has shown resilience,” he said. “And the services sector has been stronger [in pace of activity] than expected.”

However, when talking about the future, the same statements cannot be repeated, according to him. Mr. Tobler recalled that there is consensus, among analysts, of a weaker economy in 2023. This is because there are signs of a continuing environment of higher basic interest rates, a way to tackle inflationary advances. This curbs greater consumption power, as well as the cadence of economic activity, with an impact on different activities in the economy, including services, he says.

For Mr. Tobler, whether employment remains in a favorable scenario will depend mainly on the future trajectory of the economy. “The labor market is fine. But as good as it is, it still has a long way to go,” he added.

Source: Valor International
<https://valorinternational.globo.com/>

10/07/2022

BRAZIL CAN EXCEED GOALS IN CARBON MARKET, STUDY SHOWS

Country could jump to 48% from 12% share in voluntary market

Brazil currently accounts for 12% of carbon credits issuance in the global voluntary market, with 45.28 million tonnes in credits offered, but has the potential to play a much larger role in the mitigation of emissions.

A study carried out by the International Chamber of Commerce (ICC Brazil) in partnership with WayCarbon consultancy indicated that in a scenario of accelerated emissions reduction in the next decade, Brazil could offer 1.5 billion to 2 billion tonnes in carbon credits in 2030, which could mean 22.3% to 48.7% of the credits in this market.

The calculations considered a price of \$100 per tonne for the carbon credit, an amount that is considered by the Taskforce on Scaling Voluntary Carbon Markets (TSVCM) as necessary for a fast reduction in emissions.

Brazil's current share in the global carbon market is already growing fast. In 2019, Brazil had a 3% share. A study indicated that the country would only exceed the 10% share in this market in 2030, but the country surpassed this threshold in 2021.

According to the new study, the performance reflects the higher number of credits issued by nature-based solutions (NBS) and the influence of the regulation of Article 6 of the Paris Agreement at the last UN Climate Change Conference of the Parties (COP) in Glasgow, Scotland.

The trajectory for the coming years, however, still depends on solving some hurdles. In the view of ICC and WayCarbon, after interviews with several agents in this field, it is necessary to overcome market, technical, political, regulatory, and economic barriers. In these aspects, are mentioned the lack of credibility of government commitments, high complexity of land regulation, difficulty in estimating the organic carbon of the soils, and also difficulty in obtaining sources of funding.

“Our goal is to deliver a compass that shows the way to the economic agents transparently so that they can develop, structure, and strengthen this market,” said Laura Albuquerque, WayCarbon's general manager of consultancy and the leader of the research, in a note. According to her, it is still “necessary to strengthen the flows of the stages of carbon credit generation.”

Source: Valor International
<https://valorinternational.globo.com/>

10/10/2022

PROJECT SEEKS TO INCREASE ORGANIC PRODUCTION

FGV study points ways to accelerate the transition of family farmers

Marcelo Fukunaga's life changed radically when his daughter was born. Besides experiencing the excitement of becoming a father, he also realized that, as a farmer, he did not have the courage to feed her with the products he grew on his property, because of the amount of pesticide he used. It was then that he took the courage and decided to migrate to organic production on his 10 hectares of land in Vale do Ribeira, in the south of São Paulo state.

But not all small producers have the motivation for such a change. And as much as some want to reduce their dependence on chemicals, they face a many challenges.

To unlock this market, the Center for Sustainability Studies of the Fundação Getulio Vargas (FGVces) prepared a study with recommendations for the public and private sectors to encourage the transition of small producers. The initiative had the support of Carrefour Brazil and the Carrefour Foundation and the collaboration of 50 organizations and more than 70 people, including Mr. Fukunaga.

Those who believe that the difficulty for organics is low productivity are wrong, he says. "In the past, I was always in debt to the poison and fertilizer industries. Today, I produce without debt, and the revenue stays all with me," says the producer. In 2010, when he changed his model, Mr. Fukunaga reduced his production area to four from ten hectares, and his net income doubled.

The organic produced this way can be as competitive as conventional food. The difference is in the costs after the gate, logistics and certification. "Organic food can be affordable if it is produced close to where it is consumed," says Taís Brandão, researcher at FGVces and manager of the project.

According to FGVces, it is possible to untie the knot with a tripod formed by technical assistance and rural extension of organic practices, promotion of markets suitable for organic family agriculture, and dedicated public policies. The center defends that the guidelines should also target producers "in transition", that is, who still don't fit in fully organic.

There are already some initiatives, such as the São Paulo government's, which approved in February the Agroecological Transition Protocol, aimed at a "gradual" transition. "There are those who don't use pesticide, but being organic is not only that," says Araci Kamiyama, leader of the organic group of the Sustainable Rural Development Coordination (Cati). According to her, the biggest challenge is in the technical support.

On the leg of market access, the study says that retailers need to establish contracts with those suppliers that foresee sharing of losses and of certification costs, purchase guarantee, reduced payment terms, non-consigned sales, and flexibility in supply that respects the season of each food.

Cooperatives can play a crucial role, says the study. This is what made a quick transition possible for Mr. Fukunaga, who participates in the cooperative Coopafasb. "Were it not for the cooperative, I would not have access to markets as I do today," he says. Coopafasb organizes food baskets sold directly to consumers.

Another leg indicated by FGVces is that of government support. According to Mr. Brandão, besides the need for credit lines for systems in transition, it is necessary that bank employees have the orientation to offer them. "Sometimes the producer wants these lines, but the manager doesn't know about them or has no incentive to offer them, and directs the farmer to a standard line, which foresees intensive use of external inputs", says Ms. Brandão.

In São Paulo, a line of credit from Fundo de Expansão do Agronegócio Paulista (Feap) offers up to R\$500,000 for each farmer that wants to migrate to organic systems, but the demand is small. “I don’t know why. Some producers are very small and or don’t have planning, but some have capacity,” says Ms. Kamiyama, with Cati. The study also advocates public procurement of organic food and systems in transition.

There is also the leg of science. “When you talk about an organic agroecological model, you don’t have enough inputs or research, and the genetic base comes from conventional agriculture,” Ms. Kamiyama recalls.

The producers who are now seeking a transition for their crops end up learning by doing, as it was for Mr. Fukunaka. “In the previous model, I didn’t have time for my family because I always needed to increase the scale. But there are several techniques that make you produce more food and in a more diverse way. Today I work more calmly and have been able to see my children grow up.”

Source: Valor International
<https://valorinternational.globo.com/>

10/11/2022

BOOM OF PULP, PAPER PROJECTS DRIVE SUPPLIERS

Forest-based sector expected to invest more than R\$63m in Brazil by 2028

The more than R\$63 billion in investments planned or being executed by the forest-based industry in Brazil up to 2028 are moving the global chain of suppliers, from consulting and engineering services companies to manufacturers of machinery, equipment, and other inputs.

According to a survey by Pöyry, a global reference for the sector, in the pulp segment alone there are 11 projects under construction, of which seven are in South America. In the region, there are still seven other projects under study and Brazil is expected to get a good part of the future investments in the sector.

In cardboard and packaging paper, according to the consulting firm, it will be 12 million tonnes of additional capacity between 2022 and 2024. There are projects in Brazil, but most of them are concentrated in China.

“Since the 1980s, there has been a great deal of concentration among suppliers. The problem is not capacity [to service all projects], but timing. The queues have increased, but this also helps discipline the market,” said João Cordeiro, CEO of AFRY Management Consulting group, of which Pöyry is part.

Leader in the supply of air gases to the pulp and paper industry, White Martins opened at the beginning of the year a unit in Minas Gerais, which supplies LD Celulose’s dissolving pulp production lines, and has already started the construction of a new gas factory in Mato Grosso do Sul. This new project will supply the future Suzano unit in Ribas do Rio Pardo.

Andritz, in turn, recently informed that it will supply Bracell SP Celulose with four production lines for tissue paper, to be installed at the Lençóis Paulista (São Paulo) mill, with start-up scheduled for 2024. The new tissue paper mill will be self-sufficient in steam and electricity consumption for the drying process.

According to Gilney Bastos, CEO of White Martins and Linde for South America, the paper and pulp sector is one of the main clients, in volume, of the air gas industry, and has been growing strongly in the region. Besides Brazil, Paraguay, Uruguay, and Chile have projects under execution or already announced.

“The quality of the projects is impressive,” says Mr. Bastos. White Martins estimates its share in this market at 60%, after winning large contracts in recent years in the region.

In less than a year, the multinational opened two new units in Brazil. Besides the air separation plant dedicated to the production and supply of industrial gases in Minas Gerais, with a capacity of up to 60 tonnes of oxygen per day, it put into operation, in 2021, a unit with total production capacity of 240 tonnes of oxygen per day for Bracell in Lençóis Paulista (São Paulo).

According to Mr. Bastos, in Ribas do Rio Pardo, the unit being built to serve Suzano will be complete, the second of its kind in Brazil, and will supply different types of gases also destined for hospitals and agribusiness.

The first complete White Martins plant on Brazilian soil was also installed in Mato Grosso do Sul, in Três Lagoas, where Suzano and Eldorado produce pulp and Sylvamo (a company that was spun off from International Paper), printing and writing paper.

A gas plant for a specific client requires investments of around \$15 million to \$25 million. On the other hand, a complete unit requires investments of \$35 million to \$50 million. In all cases, the investment in the facilities is made by White Martins.

Currently, the Brazilian operation supplies about 800 tonnes of oxygen per day, in six units, which may be on or off-site. Of this volume, 90% is produced onsite. "There is still more to come. The market is receptive," said the executive.

As far as the world consumption of certain types of paper and pulp is concerned, it is certain that there will be a need for new mills ahead. In Mr. Cordeiro's opinion, some major trends, such as the search for more sustainable materials, open positive perspectives for the forest-based industry.

In paper, while the demand for tissue and packaging papers will continue to expand, the printing and writing segment is expected to continue to shrink globally, a reflection of digitalization. Between 2021 and 2035, according to the consulting firm, the consumption of cardboard and packaging paper around the world is expected to grow at an annual rate of 1.1%, with China's rate of 2% standing out.

In pulp, the global demand for all types of fiber, which was at 424 million tonnes in 2020, may reach 543 million tonnes in 2035 – in market pulp, which is produced with the purpose of being sold to third parties, the volumes that today are around 70 million tonnes per year will reach 100 million tonnes shortly after 2035, driven by Chinese demand.

With available land and competitive forests, analyzes Mr. Cordeiro, Brazil is expected to continue to attract investments in this segment. "When you compare the cost, in China it is 50% more expensive to make pulp than in Brazil, considering the Brazilian pulp placed there," he explains.

At White Martins, according to Mr. Bastos, the Brazilian operation is "a little more verticalized" than the traditional one, which makes it capable of quickly meeting the additional demand. Transferred from Rio de Janeiro to Sorocaba (São Paulo), the multinational's mill is flexible and can also build carts and tanks. "By having this flexibility, we can quickly adapt," he said.

Source: Valor International
<https://valorinternational.globo.com/>

10/13/2022

WOODLAND JOINS COMPETITION FOR KIMBERLY-CLARK IN LATIN AMERICA

U.S. company is said to be strongly interested in assets of Neve and Kleenex brands

A new name has appeared in the negotiations for Kimberly-Clark assets in Latin America. U.S.-based Woodland Partners is being considered a frontrunner at this stage of the negotiation, sources say. Woodland has hired Bank of America as an advisor in the talks, according to Pipeline, Valor's business website.

RGE, the owner of Bracell, also remains strongly interested. Suzano is also interested, but maintains its interest restricted to the asset in Brazil. Kimberly-Clark's proposal is to get rid of the regional package in a single negotiation. The company is advised by J.P. Morgan.

The Chilean CMPC, the owner of Softys, dismissed its financial advisors, considering that the asking price at that moment, around one time the revenue, was high. Kimberly-Clark is looking for between \$800 million and \$1 billion for the Latin American operation, sources say.

Kimberly-Clark, a company founded in the U.S., owns brands such as Neve and Kleenex. The process of selling the assets began in May.

The loss of competitiveness led Kimberly-Clark, the fourth-largest company in the sector with an 8.3% share in Brazil, to review its business in Latin America, except for Mexico, people familiar with the matter say. The multinational does not break down data by region.

According to a source, Kimberly-Clark intends to sell its assets in a block at once, but there is a consensus among buyers that there is no interest in the whole package. Part of these investors hopes that the company will slice up the assets. In another alternative, the buyer would sell the regions that are not of interest in a separate operation.

The size of the Brazilian market for personal care papers and the potential for growth attract domestic and foreign groups, despite the strong competition. Last year, the production of tissue, which is absorbed locally, totaled 1.3 million tonnes, a flat figure compared to 2020, according to the Brazilian Tree Industry (Ibá). The annual consumption per inhabitant is estimated at 6 kilograms — it is 27 kilograms in the United States.

Suzano declined to comment. In a statement, Kimberly-Clark said it does not comment on market speculations regarding its operations. “The organization stresses its commitment in the locations where it is present, based on 150 years of close partnership with customers and respect for consumers and its employees.”

RGE said Bracell consistently reviews attractive business opportunities, also in the tissue sector. However, it also cannot respond to M&A speculation in the market at this time. Woodland Partners did not immediately reply to a request for comment.

The original story in Portuguese was first published on Valor’s business website Pipeline.

Source: Valor International
<https://valorinternational.globo.com/>

10/14/2022

WHAT CRISIS? AGRIBUSINESS SECTOR GROWS IN PARALLEL REALITY TO BRAZIL’S

Sector is independent of economic policy, profits from external scenario

Brazil’s agribusiness sector grew 25 percentage points faster than the country as a whole in recent years and saw income increase threefold compared with states in the Southeast region in the second quarter. Most people involved with this sector voted for Jair Bolsonaro (Liberal Party, PL) in the first round of the presidential election, on October 2, and will probably do it again in the runoff, two weeks from now.

The sector has expanded above the national average in the last two years and was less impacted by turbulences during the latest recessions and the pandemic. This thriving economic reality diverges from that of the country, and the sector’s rising political influence partly explains why people in this field back President Bolsonaro, experts say.

In the first round, former President Luiz Inácio Lula da Silva (Workers’ Party, PT) received 48.43% of the votes, compared with Mr. Bolsonaro’s 43.2%. Mr. Lula da Silva got more votes in the North and Northeast regions. Mr. Bolsonaro won in the Central-West, South, and Southeast regions, especially where the agribusiness sector is dominant – rural regions of Santa Catarina, Paraná, and São Paulo, the Central-West region, the so-called Triângulo Mineiro (in the west part of Minas Gerais) and the southern part of the North region.

Between 2019 and 2022, the territory where Mr. Bolsonaro did better, the same where Brazilian agriculture is stronger, showed a real average growth of 30% higher, while GDP growth in the other regions was much slower,

with an income level below the peak seen in the 2011-2014 period, said Braulio Borges, an economist at LCA Consultores.

“This remarkable jump in the real income from agriculture between 2019 and 2022 was not due to a higher volume, but to relative prices much more favorable as a reflection of more expensive agriculture commodities in dollars and a very weakened real against the dollar since mid-2020,” he said.

In volume, agricultural GDP – considering only production, not the whole chain – probably saw an average growth of 1% a year between 2019 and 2022, while the Brazilian GDP expanded by 1.1%, he said.

The agricultural GDP over the 2019-2022 period reached R\$2.08 trillion adjusted by inflation, up 29.4% from the previous four-year period, Mr. Borges said. “Even though this is a sector with an 8% share in Brazil’s GDP, this is a spectacular jump. This means R\$472 billion more compared with the 2015-2018 period in terms of income,” he said.

Looking at the rest of the economy, excluding sectors such as public administration, imputed rent, and financial transactions, which would account for 60% of the Brazilian GDP, the growth was much lower, at 3.8%.

While the high price of commodities and the weakened real favors farmers, it means more expensive food and higher inflation for the rest of the population, the economist said. The agriculture sector accounts for 8% of the Brazilian GDP but can reach 28% if services and the whole chain are included.

This is a different Brazil, said Mr. Borges. “A country that queues up to buy R\$500,000 pickup trucks,” he said. “A Brazilian Texas, more conservative and strengthened by the agribusiness sector. It starts in the north of Rio Grande do Sul, and goes through Santa Catarina, the Central-West, and the new frontier in the Northeast. This region has grabbed most of this income gain and voted massively for the current administration.”

Even though voters associated this situation with the Bolsonaro administration, historical and cyclical factors explain the recent bonanza in this part of the country, said Sergio Vale, the chief economist at the consultancy MB Associados.

“Over the last four decades, the states with the greatest weight of agribusiness have grown the most,” said Mr. Vale. “There are two main reasons for that. One is that agribusiness ended up integrating more with the world [than other sectors, like industry]. The other is prices, which led agriculture-producing states to have a higher real income growth.”

Mato Grosso and Mato Grosso do Sul are expected to grow above 5% this year. The other agriculture-producing states in the Central-West, North, and Northeast regions will also perform above the country’s average, MB Associados projections show.

Mr. Vale’s calculations, based on figures from the Brazilian Institute of Geography and Statistics (IBGE), show that between 1986 and 2023 Mato Grosso will grow 695%, compared with Brazil’s 108.7%. From 2012 to now, the per capita GDP of the Central-West states will probably have expanded by more than 10%, compared with Brazil’s 4.7%.

This year, the states where income grew the most in the second quarter, compared with the same period in 2021, are those with a greater share of agribusiness in the local economy.

This bonanza is seen not only in Brazil, he said, as it has benefited all the agricultural commodity-exporting countries.

In his view, linking this income boom to the Bolsonaro administration, therefore, sounds exaggerated. “It’s not about fiscal policy, reforms, or Bolsonaro. It has to do with agricultural commodities. They are driving this growth,” said Mr. Vale.

The economist divides Brazil into three major categories: the South and Southeast regions, which have developed and, in a way, stagnated; the Central-West region and the new agricultural frontier, which are getting rich through agribusiness; and the Northeast, which could become an important hub, especially due to its proximity to markets such as the European Union.

Messrs. Borges and Vale believe that, despite the sector's majority association with Mr. Bolsonaro, a victory of Mr. Lula da Silva could ease the pressure on the environmental front, favoring exports to markets like the EU.

"There is a backward-thinking segment of agribusiness that considers that environmental protection is an obstacle. Nothing could be more wrong: the Mercosur-EU trade agreement was put on hold precisely because [Brazil's] environmental policy is moving backwards," said Mr. Borges. "And this agreement would greatly expand the market for Brazilian agricultural products in Europe."

The regions where agribusiness is predominant have experienced less economic turbulence in recent decades, said Felipe Serigati, a researcher at the Agribusiness Center of Fundação Getulio Vargas (FGV Agro).

"From 2000 to now, the agribusiness universe was by far the economic sector that grew the most. It was an average growth of 3.5% per year, compared to the Brazilian economy's 2.3%," he said.

"The regions where agriculture is the predominant economic activity and was able to boost regional services and employ most of the local labor force did not feel the impacts of the crises we have gone through since the 2000s with the same intensity," he said.

He cites as examples the 2015-2016 recession and the crisis caused by the Covid-19 pandemic, which had a greater impact on industry and services.

In addition to the growing economic importance, in the last 20 years the sector has gained political relevance, both in terms of representation in Congress and in the search for political support from the sector's representatives and in defending the interests of the Legislative and Executive branches' agenda, the expert said.

"From 2000 on, the sector has clearly gained a greater political space and more prestige. And it has a greater capacity for mobilization. The agribusiness agendas today have greater convergence with a larger fraction of the Brazilian population," he said.

In the first round of the election, 70% of the members of the Parliamentary Agricultural Front (FPA) who ran for reelection to the Chamber of Deputies won and will have a new four-year term. Of the 241 members in the lower house, 218 ran for new seats and 153 were reelected.

A survey by FPA indicates that the group will have at least 158 representatives in the new legislature. The list only accounts for former members who were out of office and are returning to the lower house, and the continuity of reelected members.

Despite the substantial number of FPA members, important representatives from the agricultural sector will be left out in 2023, including Neri Geller (Progressive Party, Mato Grosso, MT), a former Agriculture minister and vice-president of the FPA, and Aline Sleutjes (Social Liberal Party, PSL, of Paraná), the group's institutional coordinator.

FPA, a strong ally of President Bolsonaro that typically has a great presence in the lower house, is expected to also grow in the Senate.

With the return of former members who were out of the office and the victory of allies who occupied other positions, FPA projects at least 40 senators from 2023 onwards – out of 81. New members may raise this number to 45 seats. In the last legislature, there were 39 senators aligned with this group.

The group, reinforced by names like Tereza Cristina (PP of Mato Grosso do Sul), a former minister of Agriculture, can be crucial for passing measures dear to the agribusiness sector that are stalled in the Senate, such as changes in how environmental permits are granted, in land regularization, self-control of agricultural inspection and registration of pesticides.

Source: Valor International
<https://valorinternational.globo.com/>

10/17/2022

AVB BETS ON ENERGY TO EXPAND IN GREEN STEEL

Company has become Brazil's first carbon-neutral steelmaker

At a time when there is a global race for decarbonization in the steel industry, the largest emitter of carbon dioxide in the industrial sector, Aço Verde do Brasil (AVB), a small long steel mill in Açailândia, Maranhão, has already overcome this challenge. The company already manufactures its steel without using fossil fuels. This has earned AVB — which has only seven years of operation — a certification issued by SGS as the first carbon-neutral manufacturer in this segment.

The mill's emissions, measured since 2018 by SGS, were 0.1 tonne of CO₂ per tonne of crude steel manufactured that year. In the following ones: 0.06, -0.04 and 0.02 tonne of carbon dioxide. The small increase in 2021 is linked to the start-up of the blast furnace 2. The measurements followed World Steel Association (WSA) standards.

The world average of CO₂ emissions in the steel sector, involving the various types of mills, is 1.84 tonnes of CO₂.

Silvia Nascimento — a shareholder together with other members of the Nascimento family — has been in the executive command of the company since April and wants more. “Our goal is to make AVB also a company with zero waste generation.” To achieve this, she is investing in projects to turn this waste into co-products for use in the company's own facilities.

“We don't use fossil fuels and we reuse all the gases emitted at the plant in production equipment operations,” she said. “And now we will reuse all the waste.”

While increasing steel production, after starting operation of a new blast furnace, the company is investing nearly R\$70 million in a thermoelectric plant to generate 12 MW of energy from the recovery of gases generated in the production process. It is expected to be completed by the end of this month. The energy generated in the thermal plant will supply one third of the company's consumption. It will replace part of the renewable energy that is currently purchased.

“Our philosophy is sustainability,” says the businesswoman and executive, a native of Belo Horizonte, capital of Minas Gerais state, who was “summoned” by her father at the end of 1999 to help him run the business of the Ferroeste group. “I have been with the company for 23 years. I left several things behind in the United States, where I was at that time, and became more involved in the family business.”

Since then, she has held leadership positions in the companies of the group. In 2008, a project arose to add value to pig iron, made by Gusa do Nordeste, and steelmaker AVB was created from this base in Açailândia.

The project faced some obstacles, including the global financial crisis (Lehman Brothers' bankruptcy), which scared away potential financing and affected the purchase of equipment. After several years of persistence and investments of over R\$1.5 billion, says Ms. Nascimento, the steel mill was ready. It started operating at the end of 2015 producing pig iron and billets.

Three years later, the company began with the rolling mill equipment, able to make 600,000 tonnes per year. It has become the largest long steel mill in the Northeast region.

The time of the steel mill construction process allowed the company to improve the project, the executive said. “We have a business that goes from planted eucalyptus forests, to make the biocarbon for the pig iron blast furnace, to the final product. We even have a gas factory installed in the plant, which is common only in large steel mills,” said Ms. Nascimento.

The executive has a degree in Business Administration from the University of Miami, where she lived for nine years, three of which in a boarding school. In Brazil, she took the Program for Development of Managers (PDD) at Fundação Dom Cabral, near Belo Horizonte, in 2004.

After that, a full dedication to the company. She has held several positions at AVB, until reaching the top, when she became CEO. Most of her time is divided into managing office in the capital city of Minas Gerais, where she lives, the mill in Açailândia — monitoring the operation — and São Paulo, for contacts with the financial market.

In 2021 and this year, the company issued two Certificates of Agricultural Receivables (CRA), totaling R\$650 million, to strengthen its capital structure and invest in the eucalyptus reforestations (more than 60,000 hectares) it has in Maranhão and Piauí. Also at the end of last year, AVB obtained approval with the Securities and Exchange Commission of Brazil (CVM) in the B category (over-the-counter securities).

According to the executive, the company acts as if it were already publicly traded, publishing its earning reports on a quarterly basis and advancing in corporate governance. For 2023, for example, at the next shareholders' meeting, she intends to appoint three independent board members. Today the board is formed by her, her father (who chairs it), her brother, and her sister. The members will be people with experience in the real estate market, sustainability, and the financial sector.

Is all of this a preparation for a future IPO on the stock exchange? Ms. Nascimento does not deny this, but says it is still too early to decide on an IPO.

Source: Valor International
<https://valorinternational.globo.com/>

10/17/2022

BRAZIL'S SUPREMACY IN SUGAR IS GROWING

The country may account for more than half of exports in the 2022/23 global season

Brazil is expected to continue to dominate the sugar market in this global season 2022/23, which tends to be marked by a small surplus in production. The latest rains in the Center-South of the country contribute to this scenario, which have helped in the development of crops for the next local season.

Brazilian mills may export 30 million tonnes of sugar in the 2022/23 local season, estimates Plinio Nastari, president of Datagro, a consultancy firm specialized in agriculture. If confirmed, this volume would be more than half of the sugar to be traded in the current international cycle — the consultant foresees global shipments of 57 million tonnes.

With this, the distance between the shipment volumes of Brazil and India, the second-largest exporter of the commodity, is likely to grow. The authorities in New Delhi indicated that they should issue export licenses for 8 million tonnes in this cycle, below the 11 million of last year's season.

India will probably produce 36 million tonnes of sugar this harvest, already considering 4.5 million tonnes converted to produce ethanol, according to Datagro. India's biofuel program has limited the country's ability to compete with Brazil in the sugar market. Since 2017, the production of ethanol has seized 15 million tonnes of sugar, the consultancy says.

In Brazil alone, the Center-South may produce 36 million tonnes in the next local crop (2023/24), and there are still the volumes of North and Northeast regions. The increase of the Brazilian relevance in the global market raises the impact of climate and fuel prices in the country on global prices.

The difference between global supply and demand in 2022/23 is expected to be narrow, 1.87 million tonnes, Datagro predicts. The calculation, presented last week at a dinner with executives of mills that Citi Brazil promoted in Ribeirão Preto, in the countryside of São Paulo state, is similar to others in the market, such as that of Itaú BBA, which recently forecast a surplus of 2.1 million tonnes.

But this slight slack can be dilated. Mr. Nastari doesn't rule out that production in South-Central Brazil is 2 million tonnes higher than the initial forecast, which would increase the surplus to 3.8 million tonnes.

Some mills already signal a scenario of robust supply in the next harvest. Mill Coruripe, for example, believes that the rains are favoring its crops so much that there may be more cane than it can crush in a normal cycle.

“If the rains continue, there will be 1 million tonnes more than capacity,” says CEO Mario Lorencatto. Today, Coruripe can grind up to 15.2 million tonnes per harvest in its five plants in the states of Minas Gerais and Alagoas. The company is already expanding its capacity in Limeira do Oeste, in Minas Gerais, by 1 million tonnes, and will add a sugar plant to this distillery.

Investments like that, however, are the exception in the sector. “The companies are reluctant [to invest in capacity] because of the increase in interest rates,” says André Cury, in charge of the Commercial Bank of Citi Brazil. According to him, even with the good prices last year, the mills opted to generate cash and reduce leverage, which is currently close to 1.15 times.

In São Paulo, the productive picture is also favorable. Usina Santa Isabel, which has two units in the state, expects, with the crushing of this season and the next, to recover a good part of the losses with the 30% decrease it had in the last cycle, says chief financial officer Fabio Montecchio. In the current cycle, crushing may reach 5.6 million tonnes.

Despite the ample supply, the international trade scenario continues to favor price increases, believes Mr. Nastari. The prices continue 30% above the level of two years ago, near 17.8 cents a pound, and the consultant sees room to reach 19.50 cents a pound until March.

In part, price maintenance is in global demand. Datagro estimates that consumption will increase by 2.5%, above the average of the last decade, which was 1% per year.

Source: Valor International
<https://valorinternational.globo.com/>

10/18/2022

SOLAR GENERATION GROWS IN BRAZIL DRIVEN BY TAX BREAK

Data show that there are 1.67 million consumer units of power generated by their own photovoltaic systems

In November 2021, when the water scarcity flag weighed on electricity bills and contributed to raising double-digit inflation, shop owner Silvio Inada was experiencing a different situation. Newly installed photovoltaic panels had already begun to capture the sunlight that poured onto the roof of his children’s clothing store in São Paulo. Today, the panels allow Mr. Inada to virtually reduce to zero the store’s electricity bill and cut his home’s bill by half.

Two or three years ago, the man said, he wanted to stop being a hostage, at least in electric power, of tariff increases, determined by the government or not, of exchange rate impacts, water issues, and the higher cost of thermoelectric plants. “I wanted to get away from that and have a more secure source of power.”

Mr. Inada’s store and home are part of the 1.67 million consumer units of power generated by their own solar photovoltaic systems, according to the Brazilian Photovoltaic Solar Energy Association (Absolar). Solar panels have been taking over roofs, facades, and terrains of homes, businesses, industries, rural producers, and public buildings in the country almost at the speed of light if compared to the evolution of the country’s total electric power capacity.

The power installed on rooftops totaled 13.7 gigawatts by October 15, a 48% growth in comparison to the 9.21 GW of production capacity that existed at the end of 2021. Installed power is projected to reach 18 GW by the end of this year, said Barbara Rubim, Absolar’s vice president of distributed energy. According to the 10-year power expansion plan of Empresa de Pesquisa Energética (EPE), this installed capacity is expected to reach 37.2 GW by the end of 2031. Today, photovoltaic power represents 98.1% of this type of generation.

The “power produced on the roof” is like the work of “little ants,” with their own generation of solar power spread throughout the country, said Daniel Pansarella, national manager in Brazil of Trina, a Chinese manufacturer of photovoltaic modules and cells for plants and residential systems.

He recalled that in 2017, just five years ago, solar power was predominantly coming from centralized production from large plants. At the time, distributed generation — power production for self-consumption — was still in its infancy. Today, there is growth on both sides, and the “ants” power is leading, said Matheus Rodrigues, product manager at Trina.

According to data from Absolar, the installed capacity of solar power in 2017 was 1.16 GW, with 84% in a centralized generation. By 2020, this outlook was inverted, and today distributed generation represents 68% of all installed solar PV capacity. The advance of distributed generation resulted in investments of R\$25.9 billion from January to October, and totaled R\$73.9 billion in amounts invested since 2012. The result is 54% higher than the investment in the decade ended in 2021.

The solar source, including power centralized in large plants, reached 20.25 GW in installed capacity in October, which represents almost a tenth of the country’s power generation mix. The share was 7.4% at the end of last year and 4.5% in December 2020, according to Absolar and the Brazilian Electricity Regulatory Agency (Aneel).

The fast growth of the “ant” projects is credited by consumers and companies in the sector to factors such as the expensive electricity bills, a perception intensified by the recent water crisis that Brazil went through, and Law 14.300, which was signed in January and is considered the legal framework of micro and mini generation.

According to this law, Ms. Rubim says, consumers who request access to the grid for their own solar systems until January 6 of next year will be free of the so-called “solar tax” until 2045. Because of this, she said, people are bringing forward the decision to install the systems.

Rodolfo Meyer, a partner of Portal do Sol, a company that installs photovoltaic equipment, says that the deadline for more beneficial taxation is expected to still make a difference until the end of this year, although from April to mid-September he has noticed less enthusiasm in the demand for solar power. In his view, this is due to the uncertainty concerning the presidential elections and also to the high key interest rate, which makes credit more expensive.

According to Mr. Meyer, more than half of acquisitions are financed. Photovoltaic equipment has become more affordable over time, but there is also the exchange rate effect since the main components are imported, said Ms. Rubim.

Even though the sunlight still comes for free, the decision to produce one’s own photovoltaic power took a while to get off the drawing board because “the costs were prohibitive,” said Mr. Inada. The shop owner decided to make the investment last year. The R\$40,000 invested in the installation of the 800 kW photovoltaic equipment still cannot be considered a low price. “The equipment is still expensive, but the cost of electricity has become too high as well.”

Mr. Inada did not take out a loan to bet on solar power, but he calculates that the credit terms he would get at the time would result in a monthly obligation with amortization and interest close to the discount he sees today on his electricity bills.

Brazil’s key interest rate Selic at 13.75% per year changes this equation a little, but, according to Mr. Meyer, part of this impact seems to have been absorbed by consumers, who have already made the calculations with the new interest rate and are studying photovoltaic projects again since September. Regardless of this scenario, he says, the company expects to more than double its revenues this year in comparison to 2021, and also double the number of franchisees.

In his view, the change in tax generated by Law 14,300 may bring a hiatus to the market next year, for a few months, but in the long term, the sector is likely to remain heated. According to him, the effect of the change in tariff collection for the recovery of investment is “marginal” and depends on how much of what is generated of power will be consumed simultaneously and how much will be injected into the network.

The effect of inflation on the electricity bill also needs to be factored into the bill and ends up offsetting this, said Mr. Meyer. "This market is growing because it makes financial sense. It is a green economy with gains." It must also be remembered, he says, that the ongoing technological change points to an ever-increasing demand for electricity. He exemplifies the market evolution of electric cars and batteries.

Technological evolution also allows for payback in shorter timeframes today, Mr. Pansarella says. "In 2012 or 2013 the payback was in 10 years. Today, payback is already possible in five years."

Data from Absolar show that the energy from the roof is led by homes, which represent 48.5% of the installed power. Commerce and services come right after, with 30.1%.

About 70% of the residential public demands a system capable of generating between 500 kW and 700 kW monthly, with an investment between R\$25,000 and R\$30,000, generating savings of R\$6,000 to R\$7,000 annually. If it is a place in Minas Gerais, the payback is faster. If it is in a rainier region, like Santa Catarina, for example, it takes longer.

In his store, Mr. Inada does the math. By virtually reducing to zero the electricity bill, he cut the costs of his business, and the possibility of compensating for the surplus in his home's bill also helps to make ends meet. He expects to recover the investment in four years. The seasonality of solar power generation is already priced. At the current moment of the year, with cloudy days and rain, he said, his system has been generating something like 60% of the installed power.

If the equipment were more affordable, he could also install solar panels on the roof of his house, he said. But for now, the shop owner is waiting for the thermometers to indicate warmer days in the coming summer when his own power generation will probably peak.

Source: Valor International
<https://valorinternational.globo.com/>

10/19/2022

NATURA SOARS DRIVEN BY SPIN-OFF PLANS

Analysts with Citi, BTG Pactual and Santander said that the potential deal may be a way to unlock value to shareholders

Natura & Co unveiled Monday that it began studies for the potential spin-off and IPO of Aesop, the company's luxury business. The company closed the trading session on Tuesday up 9.62%, at R\$14.24 – the highest intraday gain of Brazil's benchmark stock index Ibovespa.

Itaú BBA analyst Thiago Macruz points out that most of Natura & Co's debts do not mature in the short term and that the company does not currently have a liquidity problem. A spin-off and IPO of Aesop, therefore, could be interpreted as a measure of business expansion, not to reduce the holding company's debt.

"Natura is giving signs of decentralization in decision-making worldwide, indicating that there are not necessarily the same synergies identified in the past," he told Valor.

This is also the view of Antonio André Neto, the coordinator of the MBA Strategic and Economic Business Management at Fundação Getulio Vargas (FGV). "It also frees up all the costs that Natura needs to have to support this company. Despite sharing many services, you can imagine that Aesop employs many people not directly linked to Natura's operation. They are part of these shared costs."

Analysts with Citi, BTG Pactual and Santander said that the potential deal may be a way to unlock value for shareholders. Goldman Sachs said that the generation of value with the deal depends on its format and the value that the market would give to the separate companies. XP said that the market is in "challenging" times for such a deal and highlighted Aesop's heavy investments to enter China, which could pressure profitability in the short term.

Alexandre Pierantoni, a specialist in mergers and acquisitions and director of corporate finance at the risk consultancy Kroll, agrees that this type of deal should wait for the most favorable moment, liquidity, and the potential for appreciation. "If this spin-off or IPO materializes, the company can benefit from the value that the asset is creating on its own. The parent company can generate value, but it depends on what the asset is, where the funds will be allocated, if there is an alternative of extracting the value and putting it in another investment," he said.

Source: Valor International
<https://valorinternational.globo.com/>

10/20/2022

BRAZIL WILL DRIVE DEMAND FOR NEW AIRCRAFT IN LATIN AMERICA IN NEXT 20 YEARS

Latin America's largest economy is expected to absorb 30% of the 2,240 additional aircraft that will be needed to serve the region, a study by Boeing shows

Brazil will drive the demand for new airplanes in Latin America in the next 20 years and airlines will look mainly for single-aisle jets, which are typically used for domestic flights, a market outlook study conducted by Boeing shows. According to the U.S.-based company, the country is expected to absorb 30% of the 2,240 additional aircraft that will be needed to serve the region, including the Caribbean, in this period.

Most of the new aircraft, or more than 2,000, will be single-aisle jets, said David Franson, the plane maker's regional director of market forecasting. Boeing, with its 737s, and Airbus, with the A320 and more recently the A220, are the main competitors in global commercial aviation, but China's Comac is trying to join them with the C919. Brazil's Embraer has gained traction in the dispute with the smaller and single-aisle aircraft from Boeing and Airbus since the launch of the E-Jets E2 family.

According to the U.S. company, the fleet of commercial aircraft in Latin America is expected to grow more than 85% by 2041. Expansion is likely to account for 60% of new aircraft, while fleet renewal will represent 40%. These jets combined are valued at \$335 billion.

According to Boeing's Commercial Market Outlook (CMO), Brazil will lead this movement, with the potential for more than 670 new aircraft in two decades. "Part of that is going to be determined by the market share of local airlines. But Brazil is the largest economy in the region," said Mr. Franson.

In the executive's view, Latin American airlines have recovered strongly after the Covid-19 pandemic and will need more versatile and efficient fleets in an environment of rising fuel costs and sustainability goals assumed for the coming decades.

"The pandemic brought change and versatility is a requirement today," he said. As for costs, he believes that airlines are better able to manage higher and more stable costs, which are passed on to fares, than volatility.

When asked about the consolidation of airlines in the region, Mr. Franson said that, in Boeing's view, what matters is healthy competition, which is possible with a larger number of airlines or a few strong competitors.

Source: Valor International
<https://valorinternational.globo.com/>

10/21/2022

BRAZIL TO HAVE FIRST 100% LOCAL SOLAR PANEL FACTORY

Sengi Solar wants to be more than Just an alternative to China

With the inauguration of the first 100% Brazilian photovoltaic module factory, Sengi Solar wants to be more than an alternative to China — the source of most of the solar panels supplied to the world — and hopes to open the door for new manufacturers of solar power components to establish in the country, at a time when Brazil is witnessing the power source increase its installed capacity at a fast rate. Sengi — a company belonging to the Tangipar group, in Paraná state — which operates in the distribution of photovoltaic equipment, has invested R\$440 million in the construction of two module factories.

The first one, in Cascavel, also in Paraná, will be officially inaugurated this Friday with operations in one shift, and the company expects to open the other two shifts early next year. The second plant, in Ipojuca (Pernambuco), is scheduled to start operations in mid-2023. The two plants combined will be able to produce 1 gigawatt per year, said Everton Fardin, the company's CEO. He says that between the first conversation and the production of the first photovoltaic module, there was an interval of only nine months.

To meet production, Sengi still depends on importing raw materials, all of which, according to Mr. Fardin, come from first-line suppliers. However, the company has already started conversations to obtain local supply. Sengi has signed negotiations, for example, with a multinational glass manufacturer with Brazilian production to supply the raw material to the company, whose name was not disclosed for strategic reasons — the glass is one of the main raw materials for the manufacturing of the panels, and is currently imported from China.

“The company saw an opportunity and said that if we guaranteed a demand of 1 GW, it would provide the glass needed for production,” said Mr. Fardin. Recently, solar power has surpassed the 20 GW threshold, 14 GW of which are small generation plants, and has become the third most used source of electricity in the country, behind wind power (24 GW) and hydro (109 GW). The growth in the country would have been even greater, but the evolution may be affected by the disorganization of production chains, caused by the resumption of activities in the world and the war in Ukraine.

For the executive, the current scenario allowed the decision on the plant in Brazil. “We understand that China was starting a deindustrialization process, and this is a very strategic product for Brazil and that it is the right time to develop this product in the country,” said Mr. Fardin.

Sengi's initiative, according to Mr. Fardin, can stimulate other entrepreneurs in the segment to bet on the country as a competitive productive hub.

Unlike wind power generation, which counts on Brazilian suppliers of components such as wind blades and towers, solar generation did not manage to form a local chain.

The executive says that the company saw the level of technology evolution decelerate in comparison to what happened in the past, which facilitated the decision to bet on Brazilian production — the company adopted the most up-to-date technology for manufacturing, whose updating cycles have intervals between six and seven years. Each of the assembly processes takes 25 seconds on average.

“The module technology has reached such a level that the changes are small [between cycles]. We have already sized the plant so that in the next six or seven years it will still be competitive in the market.”

Mr. Fardin also said that the company is in talks with research institutes, universities, and consulting companies to develop research and development (R&D) projects related to the development of national solar technologies. Part of the funds for the implementation of the plants came from the Program in Support of Technological Development of the Semiconductor Industry (Padis), which aims at the formation of a national semiconductor industry. The program establishes as a counterpart the application of 5% of gross revenue in R&D projects.

One of the goals in this case, says Mr. Fardin, is the development of a 100% Brazilian solar cell, which would make the country less dependent on China and more suitable to Brazilian climatic conditions.

The cell is the component that converts sun energy into electric power through the so-called photovoltaic effect, using semiconductor materials, especially crystallized silicon. Several cells form a solar module, and several modules make up a solar panel. “We are thinking about developing a module, especially for the Brazilian market, one that meets all the requirements of our country,” he said.

Source: Valor International

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

10/24/2022

WITH E2 JETS, EMBRAER ADVANCES ON COMPETITORS' TERRITORY

Brazilian company, the world's leading maker of aircraft with up to 150 seats, has been gaining customers in other segments

Embraer, the leading maker of aircraft with up to 150 seats, has been gaining strength to advance on its rivals' territory abroad with the growing demand for the E-Jets E2 family. With the E195-E2, the Brazilian company has explored segments disputed by Airbus's A220 or the smaller models in Boeing's 737 family, and won new customers.

In July, it beat Airbus and won a firm order of 20 E195-E2 aircraft from U.S.-based Porter, worth \$1.56 billion. In the same month, it reached the mark of 12 units of E195-E2 delivered to the regional division of the Dutch company KLM, which consolidated itself as the largest operator of Brazilian jets in Europe.

Just over two weeks ago, it received its first order from a Middle Eastern company, SalamAir. The firm order for six E195-E2s, with purchase rights for another six jets, drew attention because, until then, Oman's low-cost airline only flown Airbus aircraft.

"Although it is an order of moderate size, it signals that customers flying Airbus are also studying Embraer models," Itaú BBA analysts Daniel Gasparete, Gabriel Rezende, and Luiz Capistrano wrote in a report earlier this month. Half of the order, valued at \$935 million, is expected to be included in the third quarter backlog – in June, the company's firm order backlog stood at \$17.8 billion. In the first half of the year, five E195-E2s were delivered, three of them between April and June.

On Thursday, the Brazilian company said that one of the world's main travel companies, the European TUI, chose the E195-E2 to expand its fleet, which highlights the model's versatility. The group will receive three aircraft through a leasing agreement with AerCap and will incorporate them into the Belgian operation.

One of the main advantages of the E2 is the 25% reduction in fuel consumption per seat compared to its first generation. In addition, it is 50% less noisy than others in its class.

Embraer estimates that the global demand for new aircraft of up to 150 seats in the next 20 years will be 10,950 units, of which 8,670 are jets and 2,280 turboprops, with a market value of \$650 billion.

In a report presented during the Farnborough International Airshow, the company projected that world demand for air travel, measured in revenue passenger kilometers (RPK), will grow at 3.2% per year (considering the compound annual growth rate, CAGR) through 2041, slightly below the 3.3% rate estimated a year earlier because of the short-term slowdown in the global economy, lingering effects of the Covid-19 pandemic – considered as a region, China remains in the bottom in terms of flight resumption – and the Russia-Ukraine war.

In the battle for new orders, the Embraer E2 jets also suffered some defeats, as in the choice of Australia's Qantas for up to 134 of Airbus's A220 and A320neo aircraft instead of Brazilian models or Boeing's 737 Max. Even so, the Brazilian company managed to get "dangerously" close to its rivals in the smaller segments.

In October, Embraer shares went up 7.6%. In the year, however, it is down nearly 50% after gaining almost 200% in 2021.

Source: Valor International
<https://valorinternational.globo.com/>

10/25/2022

TAP TO REACH PRE-PANDEMIC LEVEL BY END OF YEAR

Company currently operates 74 weekly flights in Brazil and is undergoing restructuring

With an eye on the growth in demand for international travel, TAP Air Portugal, the second-largest international airline in Brazil in terms of seats offered, will be able to reach its pre-pandemic supply level on the São Paulo-Portugal route by the end of this year for the first time since the beginning of the pandemic

This is the estimation of Carlos Antunes, the company's director for Latin America. The pandemic has led the group to a major restructuring, supported by financial support in the order of €2.3 billion – the company is likely to receive more €900 million soon, according to Mr. Antunes

The company currently operates 74 weekly flights in Brazil. But the crisis caused by Covid-19 made the operation shrink dramatically. "In São Paulo, we got to the point we had one flight a week," recalled the executive, about the most challenging moments of the pandemic.

"One of the group's strengths is Brazil, the second most important market after Portugal. Of the total passengers we transport from Brazil, 45% go to Portugal and the rest go to other destinations via connections," he said.

TAP has the second-largest share of the Brazilian market among international airlines, with 11.7% of demand (measured in revenue passenger kilometres or RPK) in the year through August – it loses only to Latam, which holds 15.2% of demand, according to data from the National Civil Aviation Agency (ANAC).

The Portuguese airline has gradually resumed its offer and in the end-of-year festivities it will add one more flight in the Guarulhos-Lisbon direction, totaling 21 per week – the same it operated in 2019. From São Paulo, the company has also already recovered its three weekly flights to Porto.

But the group still has challenges ahead. It currently operates 74 weekly flights in Brazil, or 84% of its pre-pandemic level – in 2019, there were 86 flights. By the end of the year, the estimate is to reach 89%. Since March the group has resumed flying to all of its 11 destinations in Brazil – the last was Porto Alegre.

TAP's overall operating revenue in the second quarter was about four times higher than the same period last year, totaling €830.6 million. The figure is equivalent to 99% of the revenue for the same period in 2019, before the pandemic. At the end of the quarter, however, the group was still left with a net loss of €80.4 million. Part of the loss comes in the face of higher costs, in addition to the depreciation of the euro.

The company is 100% state-owned. It had David Neeleman, founder of Azul, as a shareholder until 2020. In the last years, TAP is undergoing a restructuring after receiving a €2.55 billion contribution from the European Commission to overcome the crisis. More €900 million euros are expected soon, said Mr. Antunes.

Part of the group's strategy is to divest assets. As a result, the company closed its aircraft maintenance operation in Galeão (Rio de Janeiro), whose warehouse, the largest in Latin America, was taken over by United.

The challenge today is to understand the new behavior of the clients. On the leisure side, the demand is strong, according to the executive. On the corporate side, demand is between 70% and 80% of pre-pandemic overall.

"Companies have learned to work remotely. And they are still working with a restricted budget. In 2023, we are going to see a supplement of corporate budget for travel," he said.

The purchasing curve, which used to be around three months in advance, is now around 45 days. "The traveler is still insecure about whether in three months we will have some political or health event," he said. The international trip, he said, ends up competing for space in the household budget with the replacement of a car or house renovation.

Another challenge for the airlines is to manage the rising costs, which are reflected in more expensive tickets. The executive said that before, the ticket to Europe used to cost something like \$600, while today it is \$800.

“The problem is that the real has devalued a lot. So before you paid something like R\$3,500 on the ticket and today it is almost twice this amount,” he said. Looking ahead to the second quarter of 2023, the executive pointed out that tickets are starting to approach pre-pandemic prices, but in dollars.

Source: Valor International
<https://valorinternational.globo.com/>

10/27/2022

CENTRAL BANK KEEPS KEY INTEREST RATE AT 13.75% PER YEA

Decision was in line with median of market expectations and signaled in the previous meeting

The Central Bank’s Monetary Policy Committee (Copom) decided to maintain the key interest rate Selic at 13.75% per year on Wednesday, as signaled at the previous meeting in September. The decision was unanimous.

The decision was in line with the median of market expectations. According to a survey conducted by Valor, all 108 financial institutions consulted expected the interest rate to remain at 13.75% per year.

In the statement released on Wednesday, the Copom said the decision reflects uncertainty surrounding its scenarios and balance of risks with even greater than usual variance. The committee states that the decision is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon for monetary policy.

The Copom also states it will remain vigilant, assessing if the strategy of maintaining the Selic rate for a sufficiently long period will be enough to ensure the convergence of inflatio

At the September meeting, the Central Bank had already stated that it would remain vigilant, “assessing if the strategy of maintaining the Selic rate for a sufficiently long period will be enough to ensure the convergence of inflation.”

Throughout the cycle, which began in March 2021, the monetary authority raised the Selic rate by 11.75 percentage points, for 12 consecutive times, in the face of a scenario of high and persistent inflation. The Copom will meet again on December 6 and 7.

Source: Valor International
<https://valorinternational.globo.com/>

10/28/2022

U.S. LIFTS SURCHARGE ON BRAZILIAN HOT-ROLLED STEEL EXPORTS

Brazilian exports of steel products to the country totaled \$5.1bn last year

The United States decided not to extend countervailing antidumping measures against Brazilian exports of hot-rolled steel products, which were in force since October 2016, according to a note released by Brazil's ministries of Economy and Foreign Affairs on Thursday. The note mentions the United States International Trade Commission (USITC).

"The decision, announced last October 21, stems from the conclusion that the termination of the measures for Brazilian exports would not lead to the continuation or recurrence of material injury to the U.S. industry, which was demonstrated throughout the review process by exporters and through the joint action of the Ministry of Economy and the Ministry of Foreign Affairs," it says.

Thus, no more additional taxes of up to 45.58% (34.28% antidumping duty and 11.3% countervailing measure) will be charged on imports of hot-rolled products from Brazil.

Still according to the two ministries, there were no changes in relation to other countries subject to the same measures (Australia, Japan, South Korea, Netherlands, Russia, Turkey, and the United Kingdom, in the case of antidumping duty, and South Korea, in the case of countervailing measure), which means that Brazil was the only country excluded.

In July, the Commission had taken a similar decision, regarding Brazilian exports of cold-rolled steel products. There were additional duties of up to 46% (35% antidumping duty and 11% countervailing measure), which were no longer charged. Likewise, Brazil was the only country excluded from the list of exporters whose sales were surcharged.

Brazilian exports of steel products totaled \$9.3 billion last year. Of this, \$5.1 billion were destined for the United States.

Also according to the note, hot-rolled steel products represented, before antidumping and countervailing measures, exports of nearly \$150 million to the U.S. market.

Source: Valor International
<https://valorinternational.globo.com/>

10/31/2022

MARKET FORECASTS STRONG QUARTER FOR PETROBRAS

Average revenue estimate of R\$163.7bn represents 34.6% increase over 2021

Analysts expect that state-owned company will maintain good cash generation in the quarter — Foto: Geraldo Falcão/Agência Petrobras

Analysts expect that state-owned company will maintain good cash generation in the quarter — Foto: Geraldo Falcão/Agência Petrobras

Oil prices and the exchange rate are expected to have a prominent role in the third-quarter earnings report Petrobras is set to release after the market closes on Thursday. Analysts also cite the greater use of refineries and falling imports of liquefied natural gas as important factors. The average of forecasts of three banks compiled by Valor suggests a net income of R\$163.7 billion, which would mean a 34.6% year-over-year growth.

The analysts' expectation is that the state-owned company will maintain good cash generation in the quarter and announce new dividend payments on Thursday. The projections of BTG Pactual, Goldman Sachs, and Itaú BBA for revenue vary between R\$153.3 billion and R\$177.89 billion.

On average, the three banks estimate an EBITDA of R\$95.2 billion, which would represent a 15% increase over the third quarter of 2021.

“Despite reductions in oil prices and maintenance shutdowns at major refineries in the quarter, we expect Petrobras to announce solid results, with the high refinery utilization rate and increased sales compared to the previous quarter,” Itaú BBA analysts wrote in a report.

Petrobras is expected to report profits in the quarter. In the case of Itaú BBA, the state-owned company is seen as posting gains of R\$41.84 billion. Goldman Sachs estimates that the company will earn R\$45.56 billion, while BTG Pactual foresees gains of R\$53.57 billion.

In dollars, UBS forecasts the company will post a \$8 billion profit, while XP is a little more optimistic and estimates \$8.2 billion. It is important to emphasize, however, that the profit may still suffer non-recurring effects, which are harder for banks to estimate.

As a comparison, in the third quarter of last year, the company posted a net profit of R\$31.14 billion, while in the second quarter of 2022, the net profit was R\$54.3 billion.

From July to September this year, the price of oil remained high in the international market, but lower than in the previous quarter, when there was greater impact from the war in Ukraine. According to Itaú BBA calculations, the Brent, the main international oil reference, had an average price of \$98 per barrel in the third quarter.

The banks estimate that the state-owned company will pay more than \$6 billion in dividends referring to the quarter’s results. Goldman Sachs points out that Petrobras can distribute up to \$12 billion in dividends by the end of the year, without reducing the cash position to less than \$9 billion.

According to the data released on Monday, Petrobras had an average production of 2.64 million barrels of oil equivalent per day (boe/day) in the third quarter, down 6.6% year-over-year. In relation to the immediately previous quarter, the drop was 0.3%.

One factor expected to contribute for the state-owned company to see better financial results in the annual comparison is the increase in rainfall. In 2021, Brazil faced a historic drought that affected hydroelectric generation and led the company to increase LNG imports to supply thermoelectric plants. This year, the scenario was reversed and LNG imports fell. Thus, according to XP, the gas and energy sector is expected to report good margins in the third quarter of 2022.

The release of Petrobras’s results on Thursday will be followed on Friday by two conference calls, one in English and another in Portuguese, and a press conference, in which the company’s executives will comment on the numbers.

XP stated, in a report, that investors will be alert to comments regarding signs of cost inflation in operations and updates on the sale of company assets, as well as possible talk about upcoming moves on dividends.

Source: Valor International
<https://valorinternational.globo.com/>