

# NEWSLETTER

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## **CAPITAL MARKET OUTPACES SAVINGS IN REAL ESTATE FINANCING**

***This trend necessitates the utilization of alternative treasury funding options, such as LCI and LIG, to adequately bolster mortgage financing***

On a landmark shift, the capital market has now eclipsed savings as the predominant source in Brazil's "funding" structure for real estate credit. As reported by the Brazilian Association of Real Estate Credit and Savings Entities (ABECIP), the allocation to private financing instruments such as certificates of real estate receivables (CRI), real estate investment funds, and bank funding bonds like real estate credit bills (LCI) and real estate secured bills (LIG), rose from 24% at the end of 2021 to an impressive 38% by mid-2023, amounting to R\$787 billion. Meanwhile, the proportion of savings in the same structure dipped from 49% to 36%, totaling R\$738 billion.

Despite significant withdrawals from savings accounts, the aggregate resources available for real estate financing have witnessed a robust 27% growth since 2021, escalating from R\$1.62 trillion to R\$2.06 trillion in the second half of this year.

This trend clearly indicates a structural evolution in the Brazilian real estate credit sector in recent years. Similarly to how analysts have been examining the unexpected robustness of the economy despite the backdrop of high interest rates, the housing finance sector is charting a comparable course. It has demonstrated remarkable resilience, enduring through previous periods of stringent monetary policy with notable steadiness.

According to ABECIP, 2023 is on track to register the third-highest volume of new home loans in history, trailing only behind the record years of 2021 and 2022. Santander's real estate business director, Sandro Gamba, who is set to lead ABECIP in the 2024-2025 term, remarks on the significant advancements in real estate credit and sales within Brazil over the past three years.

ABECIP predicts the sector will conclude the year with R\$156 billion in transactions involving the Brazilian Savings and Loan System (SBPE), potentially surpassing the 2020 figure, the best in four years, of R\$124 billion.

This is particularly noteworthy considering that prior to the COVID-19 pandemic, according to ABECIP's historical series, the peak year of 2014 saw real estate loans reaching only R\$112.85 billion.

Experts attribute the enhanced sustainability of credit, even amidst challenging economic conditions, to the growth of the capital market. This development has been crucial in sustaining the inflow of resources into housing finance, offsetting the substantial net outflows from savings accounts, traditionally the primary funding source for these loans.

This contribution was not trivial. The period between 2022 and 2023, marked by adverse economic conditions, effectively served as a stress test for the savings-based mortgage system. During this time, the primary interest rate peaked at 13.75% annually in August 2022, only beginning to decline a year later. Additionally, Central Bank data reveals a record-setting net outflow from savings accounts last year, positioning the current period as potentially the second-highest in this regard.

The tightening of funds in savings accounts directly impacts real estate credit in Brazil. Legally, 65% of the total balance in these accounts must be allocated for housing-related financing, such as home purchases or

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construction projects. Given that savings accounts offer a return of 0.5% per month plus the Referential Rate, they represent the most affordable funding source, vital for keeping loan rates accessible.

In 2021, the net withdrawals from savings accounts, the difference between deposits and withdrawals, amounted to R\$35.5 billion. This trend intensified in the following year, with net withdrawals reaching R\$103.24 billion. As of September 2023, an additional R\$86.13 billion had been withdrawn.

Over the past three years, the total outflow from savings accounts has hit R\$224.87 billion, per Central Bank data. This outflow negated the record net inflow of R\$163.31 billion seen in 2020, a year marked by pandemic-induced consumption restrictions, leading to a current deficit of R\$61.56 billion.

In contrast to the decline in savings, the capital market has experienced substantial growth, filling the void in the real estate funding structure, per ABECIP's data. "Currently, major banks engaged in mortgage lending are witnessing their real estate portfolios significantly surpassing the influx of savings. This trend necessitates the utilization of alternative treasury funding options, such as LCI and LIG, to adequately bolster mortgage financing," explains Romero Albuquerque, Bradesco's Director of Mortgage Lending.

Rodrigo Wermelinger, Caixa Econômica Federal's executive director of housing, reflects on 2023 as "a year of significant learning." Despite witnessing negative net savings, Mr. Wermelinger underscores that "it was a robust year for real estate loans." His observation points to a paradigm shift in the industry: "Financial institutions are adapting by blending traditional savings accounts resources with bills and CDI-indexed instruments in real estate lending."

The burgeoning capital market and the advent of digital transformation have been pivotal in the evolution of real estate credit. Sandro Gamba from Santander highlights the significant impact of the bank's technological investments on operational efficiency.

"Technology boosts productivity," asserts Mr. Gamba, director of Santander. "We get more use out of those who do a credit simulation. Technology has allowed us to drastically reduce contract issuance times. In about 80% of cases, Santander can now issue contracts in under 20 days," a marked improvement from the three-month average observed a few years ago.

From a development perspective, Brazil's 2018 Cancellation Act, which governs the terms for returning properties purchased off-plan, has brought substantial financial stability and spurred growth in project launches. This law imposes a penalty of up to 50% of the paid amount for cancellations.

Previously, developers frequently faced legal challenges and typically had to refund 75% to 90% of received amounts. This regulatory void fostered a speculative environment where buyers would acquire multiple properties without adequate funds, aiming to profit from resale during price surges. The sector was highly susceptible to downturns due to the elevated rate of unit returns prior to this legislation.

Data from the Brazilian Association of Real Estate Developers (ABRAINC) reveals that by August 2023, the cancellation-to-sales ratio had fallen to 13.6%, a significant decrease from rates as high as 50% during critical periods (e.g., 2018) before the law's enactment.

This positive trend is also evident in new housing launch data. A survey by the São Paulo Housing Union (trade group of the real estate industry, Secovi-SP) shows that the average annual number of new launches in São Paulo, Brazil's largest market, increased from 28,800 units (2013-2018) to 70,700 units (2019-2022), more than double.

The Abrainc-Fipe index saw a new record in 2022 for new real estate sales nationwide, with 150,000 units sold, a 10% increase over 2021's record of 143,576 traded projects. The data up to August indicates a 20.6% year-over-year increase compared to the same period in 2022.

Filipe Pontual, executive director of ABECIP, anticipates a surge in project deliveries in 2024 due to resilient demand and improved market indicators. He forecasts around R\$160 billion in housing units next year. "The rising number of sales and launches directly influences the demand for real estate credit," Mr. Pontual explains.

Romero Albuquerque of Bradesco identifies another positive market influence, the decline in the Selic, Brazil's benchmark interest rate: "A cycle of lower interest rates directly affect financial investments, prompting clients, particularly those with an investor profile, to reinvest in real estate to diversify their portfolios," notes Mr. Albuquerque.

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

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### **LACK OF DEFINITION HINDERS REGENERATIVE AGRICULTURE** ***Definition to be debated at the climate conference***

The regenerative agriculture idea is currently present as a guiding principle for some farmers in their practices. However, the Brazilian business community still notices the lack of a key point: a clear definition of what such practices should be, based on objective indicators and metrics, that can prove how regenerative these systems are.

In the academic community, most definitions describe regenerative agriculture as a set of practices to preserve soil and biodiversity, reduce greenhouse gas emissions, improve the hydrological cycle, and increase resilience of systems.

However, a study carried out by the Brazilian Business Council for Sustainable Development's (CEBDS) thematic chamber on agrifood systems concluded that the lack of an official definition of what regenerative agriculture is in Brazil is hindering the promotion of regenerative practices and reducing competitiveness of this model in the international market. Without a definition, there is no statistics to prove how many farmers are adopting such practices.

The topic will be debated this Monday at COP28 and emerges when the government is adopting Crop Plan, which is designed to offer a discount on interest rates for farmers who adopt sustainable practices, although it has not yet defined what such practices are.

The business community's concern is that Brazil may be already losing comparative advantages in the international market by failing to define the criteria for regenerative agriculture. "Brazil has a huge opportunity, but without a clear definition, we remain unable to access these markets and provide reliability for these practices to spread," said Juliana Lopes, head of Nature and Society at CEBDS. She expects 2024 to be the "key year" for Brazil to take this step, "otherwise we risk losing market share for failing to confirm the positive impact of our commodities."

Globally, there are private certifications that aim to certify whether a given production comes from regenerative agriculture. Multinational companies have already set goals to support regenerative agriculture in countries, but they have their own criteria.

Ongoing discussions in the European Union and the United States aim to reach official definitions in these countries. For CEBDS, Brazil should use its role in the international community, especially now as the leader of the G20, to claim a more "tropical" perspective of regenerative agriculture. "The idea is not to make [the concept] more flexible, but to develop aspects that suit our agriculture," she claimed.

For the business group, the indicators should consider the practices carried out in the field and the results achieved in sustainability.

At non-governmental organization Amazon Environmental Research Institute (IPAM), researchers are working to build a metrics model including four areas: carbon sequestration, soil restoration, maximization of agricultural and environmental resources, and biodiversity. CEBDS expects any model that emerges may take into account the different biomes and productive realities.

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

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### **BRAZIL COULD REACH 25% BIODIESEL BLEND, MINISTER SAYS**

***Minister of Mines and Energy said Brazil's biofuel matrix was "much discussed" at the COP***

The minister of Mines and Energy, Alexandre Silveira, said he believes it is possible for Brazil to achieve a 25% biodiesel blend in petroleum-based fuel. He made the statement during the United Nations Climate Change Conference (COP 28) in Dubai, United Arab Emirates.

"It's very possible that we'll reach 25% over time, depending on the decision of the National Energy Policy Council (CNPE)," Mr. Silveira said in a video posted on his Instagram profile on Sunday.

The minister pointed out that Brazil's biofuels matrix was a topic "much discussed" at the conference. In particular, he mentioned the "Fuel for the Future" project that the federal government sent to Congress.

"We are showing the world Brazil's potential in terms of sustainability to create opportunities for the Brazilian people," Mr. Silveira said.

The government expects the measures outlined in the Fuel for the Future project to generate investments of R\$250 billion in renewable fuels. The text defines mandates for sources such as green diesel, sustainable aviation fuel (SAF), and increasing ethanol blends in gasoline.

Currently, biodiesel content is 12% (B12), and the government's timetable calls for B13 in 2024, B14 in 2025, and B15 in 2026. According to the Ministry of Mines and Energy, the increase will depend on an analysis of technical and economic viability and a decision by the CNPE.

"It strengthens biodiesel," said the minister of Mines and Energy, referring to the project.

The minister's comments pleased representatives of the biofuels sector. The Brazilian Biodiesel and Biokerosene Association (Ubrabio) said in a statement that the speech represented a step forward after what it called "setbacks" suffered by the sector. "It not only represents a commitment to decarbonization, but also ensures Brazil's position at the forefront of the energy transition and the green economy," the organization said.

Ubrabio also expressed its support for the Fuel for the Future project. "It should bring a leap forward in Brazil's energy mix, with legal certainty and predictability," it said in its statement.

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

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### **PETROBRAS SEES OPPORTUNITY TO REBUILD SERVICE STATION NETWORK**

***State-owned oil company is monitoring outcome of Vibra-Eneva merger to negotiate, sources say***

Petrobras intends to discuss the non-compete clauses with Vibra (formerly BR Distribuidora) in order to regain service stations in Brazil, a source at the state-owned company told Valor. The state-run oil company sees a viable an opportunity to bring forward its return to the sector in case the fuel distributor goes ahead with the merger with power generation company Eneva.

According to this source, if the merger between the two companies is completed, the new company "will become another company" and Petrobras would be able to review the agreement. There is no intention to buy back part of Vibra or enter into litigation with the distributor, which is the oil giant's largest customer.

According to the proposal presented by Eneva to Vibra on November 26, the two companies each would have a 50% stake in a "merger of equals." However, the board of the fuel distributor found the proposal unattractive. Talks between the parties have not yet progressed and currently depend on Eneva being more flexible in reviewing the share exchange ratio in the deal, according to sources familiar with the matter.

Since it sold its stake in Vibra, Petrobras has been looking for an alternative way to buy back service stations in Brazil. The oil company, according to this source, wants to resume its activities in the country and considers the company's withdrawal from the deal "a bigger mistake than the sale of the refineries."

Petrobras and Vibra are already in talks to define the plans for the BR brand, which is the subject of a ten-year contract for the use of the brand signed when BR was privatized in 2021.

Another source at the state-owned company said that Petrobras does not intend to buy back Vibra and that the new strategic plan for 2024-2028, published last week, does not indicate any possible investment in fuel distribution. However, the use of the brand would have to be redefined, as Vibra owns the brand "Petrobras" on the front of its service stations—although without being obliged to buy fuel exclusively from the state-owned company, as is the case with other major distributors of oil products.

One example, according to this source, is the recent announcement of Petrobras's sale of premium zero-carbon gasoline, which Vibra "capitalized" as if it were a product of its own, not the oil company's.

Company executives have said that Petrobras is looking more closely at fertilizers and petrochemicals, as well as increasing refining operations in Brazil, which may indicate that it would not be interested in buying back Vibra. Not least because there is a clause in the company's bylaws that makes it difficult making hostile bids or taking it over ("poison pill"), according to which the value per share must be 15% above the highest price of Vibra's stocks in the previous 18 months.

However, the door was opened with the reduction of dividend payouts: the creation of a reserve for shareholder remuneration is, according to this source, an "accounting" operation and does not prevent the company from using these funds for acquisitions—not necessarily of Vibra, which is more difficult, but of smaller distributors, opening space for Petrobras to use the BR brand later, after a potential acquisition.

In October, during Petrobras's 70th anniversary event, the oil giant's CEO Jean Paul Prates said that the company needed to be close to consumers and that the BR brand was "extremely valuable." At the occasion, when asked whether the state-run company would return to fuel distribution, he said, "We expect a surprise."

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

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### **RENAULT'S NEW CYCLE OF GLOBAL INVESTMENTS BRINGS R\$2BN TO BRAZIL** ***Carmaker announced in October €3 billion for new products in five countries***

On October 25, the Renault Group announced a global investment of €3 billion until 2027 to produce new vehicles in five countries—Brazil, India, Turkey, Morocco, and South Korea. On Monday (4), the local management of the French company revealed how much of these funds will be allocated to Brazil: R\$2 billion. With this amount, the carmaker's investment cycle in Brazil, which began in 2021, totals R\$5.1 billion.

A large part of the new investments will include the production of a large SUV, whose name and launch date have not been revealed. The new model, which the company said will make its global production debut in Brazil, will join another SUV, the Kardian, a compact that will go on sale in the country in March 2024. To produce the Kardian, the company used part of the R\$2 billion investment announced in March 2022.

The two SUVs will use a new platform specifically designed to meet the company's expansion plans outside of Europe. The European continent currently accounts for 60% of the brand's sales.

The new platform is flexible and will also accommodate future hybrid car projects (vehicles with an internal combustion engine and an electric motor). The company's management has not yet given details of plans for hybrids, indicating its intention to first assess the evolution of the Brazilian market. "The important thing is to have a modern platform that allows us to produce different types of cars," said Renault Brazil CEO Ricardo Gondo.

Renault management used the occasion of the 25th anniversary of the São José dos Pinhais plant in the state of Paraná to unveil the new investment. This plant will produce the new models, both for the domestic market and to supply neighboring countries. The ceremony, held at the plant itself, was attended by Paraná Governor Carlos Massa Ratinho Júnior and Vice President Geraldo Alckmin.

“Today, funds for investment are scarce. That’s why announcing a new plan means winning another global competition,” said Luiz Fernando Pedrucci, CEO of Renault in Latin America, during the ceremony.

Earlier, in an interview, Mr. Pedrucci pointed out that investments are based on a country’s “macroeconomic conditions and government policies.” “We rely on the rules of the game. What can’t happen is that we have companies with different conditions in the same market,” Mr. Pedrucci said.

Although he didn’t address the issue directly, carmakers based in the South and Southeast regions have generally resented tax incentives for companies in the industry based in the Northeast and Central-West.

With the new large SUV, Renault is entering a market segment in which it does not already operate and in which Jeep models, produced in Pernambuco, have a strong presence.

The investment announced on Monday is part of “Renaulution,” a program to renew products and increase revenue designed by Luca De Meo, an Italian executive who took over the group three years ago. One of the features of the strategy is to reduce the focus on simpler cars and make more room for the introduction of more expensive models.

The results of Mr. De Meo’s plan are already showing. In the first half of the year, the group’s operating profit reached 7.6%, compared with 4.6% in the same period of the previous year. On the same basis of comparison, revenues increased by 27.3% to €6.8 billion.

In 2022, Brazil was Renault’s largest market outside Europe. This year, the country is fighting to maintain its position, closely followed by Turkey.

The 2.5 million-square-meter industrial complex in São José dos Pinhais has four plants that produce pickups, vans, engines, and aluminum parts in addition to cars. In total, the Paraná unit employs 5,300 people.

On December 30, the management of the engine division, now known as Horse, announced to the Paraná government another investment of R\$100 million for the local sourcing of a 1.3 engine produced in Spain, whose production will now serve the foreign market in Paraná.

Inaugurated on December 4, 1998, the Renault plant in Paraná was one of the first to mark the decentralization process of the automotive industry in Brazil.

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

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### **WEG TO INVEST R\$1.2BN TO EXPAND TRANSFORMER PRODUCTION**

***Investment package includes construction of new factories in Brazil, Mexico, and Colombia to increase production capacity by 50%***

With an eye on the growing demand for power transmission equipment and renewable power generation, equipment manufacturer WEG announced on Tuesday that it will invest R\$1.2 billion over the next three years to expand its transformer production capacity in Brazil, Mexico, and Colombia. With a focus on the Americas, the company plans to increase its production capacity in the region by 50% over the period.

In Brazil, these investments total R\$283 million and are planned for the Betim and Itajubá industrial parks in Minas Gerais state, which the group acquired in 2021 and 2022. Carlos Diether Prinz, the managing director of WEG’s transmission and distribution unit, told Valor that these funds will allow the company to expand its market share in

a scenario of growth prospects for the transmission sector with a series of auctions in the country, in addition to expanding exports.

“The main focus is on the growing demand for power in Brazil. We have several power transmission auctions coming up in the next few years. The equipment produced in Betim and Itajubá is focused on these auctions, as well as the growth in renewable energy, such as wind and solar,” he said.

In Betim, in the metropolitan area of Belo Horizonte, the company will invest R\$200 million to expand the infrastructure to provide new winding, assembly, laboratory, and shipping workstations. There are also plans to build a new factory for the production of radiators, with an area of approximately 4,600 square meters.

The Itajubá plant, where WEG has a unit dedicated to the production of transformers for instruments and measuring sets, will receive an investment of R\$83 million and will have a higher level of automation and robotization. These funds will be used to double the current production capacity by building a new 6,000-square-meter plant. This initiative is aimed not only at expanding the company’s market share but also at significantly increasing the volume of exports from Brazil to the Americas.

The bulk of the investment—approximately R\$765 million—will go to Mexico to build a new power transformer factory, which will work in synergy with the manufacturing parks in the United States.

“This investment has two goals. One is to increase our capacity to respond to demand, especially in the United States. The other is to verticalize some activities, such as boilers to make the tanks and make the factories more competitive,” he said.

The new facility will be built on recently acquired land in Atotonilco de Tula and will have a built area of 33,000 square meters. The project’s strategy is to serve the North American transmission market up to 550 kV, freeing up the Huehuetoca power transformer factory to produce equipment from 138 kV to 230 kV, and providing more capacity to meet the steady and growing demand for power transformers in the country and the United States.

In Colombia, the company plans to increase local manufacturing capacity by building a new transformer factory of up to 60 MVA in the city of Rionegro, in the state of Antioquia. With a built-up area of approximately 23,000 square meters, the new plant will meet the needs of the oil sector.

“The R\$190 million investment in Colombia is aimed at meeting the needs for expansion and modernization of the energy park in the Chilean, Bolivian, Peruvian, Ecuadorian, and Central American markets,” he said. Along with this investment package, it will also be necessary to transfer technology and human resources between the units.

With this new financial contribution, WEG is strengthening its organic growth in the country. In 2022, the company announced an investment of R\$660 million to expand the production of industrial and traction motors in Brazil. In September this year, the Santa Catarina-based company acquired the motors and generators business of Regal Rexnord for \$400 million.

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

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### **IN RELATIVE TERMS, BRAZIL IS ATTRACTIVE TO FOREIGN INVESTORS, BNP SAYS** ***Sustainable issues still have weak demand in Brazil, bankers say***

With some relief and considered optimism, Brazil’s top executives of French BNP Paribas expressed to journalists on Tuesday their perceptions about 2023 and what they expect from 2024 regarding the economy, debt issues, domestic, and international investor appetite, as well as the financial institution’s own pace of adherence to sustainability practices.

The slowdown in global economy, rising inflation, and interest rates in the United States, plus geopolitical conflicts between Russia and Ukraine and between Israel and Hamas, were the main events causing the world to stumble this year.

In Brazil, after a weaker first half of the year, the recovery in the second half should ensure economic growth in line with the firm's expectations, around 3%, said Gustavo Arruda, head of research for Latin America at the bank. "We are doing better than expected earlier this year, but we continue to face the same challenges as usual," he said, especially in regards to the risk of fiscal imbalance.

Weighing in favor of the country is the Central Bank's independence and the perception that Brazil's institutions remain stable, which is questionable in other emerging countries. Inflation under control and the expectation of a drop in interest rates next year could also bring a boost to the economy in 2024, in Mr. Arruda's view.

"When international investors and companies look at emerging markets, in relative terms and by exclusion, Brazil and Mexico are the ones that stand out," said Ricardo Guimarães, CEO of BNP Paribas Brasil. He notes "green" corporate debt issues, linked to sustainability indicators or stamps, are attractive only to foreign investors, while few local participate in these offerings.

This was the case, for example, with the issue of R\$500 million in green debentures by Companhia Energética do Rio Grande do Norte (Cosern), coordinated by BNP, which was distributed 90% among foreign institutional investors. Mr. Guimarães says local investors "still do not put value" on green bonds, as they consider a "penance" to have a slightly lower profitability, although there is a purpose behind it.

In investments, Luiz Sorge, CEO of BNP Paribas Asset Management Brasil, with R\$85 billion under management, points out that there is also room for foreign investments in the funds. "A disciplined fiscal policy could bring a new spree of appetite from global investors for local portfolios," he said. He notes the area was not so affected by the strong outflow of money from multimarket funds and equity since it had a good inflow in fixed income. The bank was also right in its decision to stay away from retail and, therefore, managed to avoid the default effect in Americanas earlier this year.

Fábio Jacob, leader of Global Credit Markets Brasil, who is in charge of structuring debt, loan and other financial services for companies, notes the "market dysfunctionality" after the Americanas case, followed by Light power company, had an impact on the appetite of corporate debt investors this year, but the bank has managed to meet its clients' demands. "We expect the capital market to return to growth in 2024," Mr. Jacob said.

He also highlights two "hot" topics to be observed next year. The first one is bill 2646, making its way in the Chamber of Deputies (Lower House), which creates tax-exempt infrastructure bonds—different from the previous incentivized debentures—with the potential to attract large investors.

The other topic is the equality in public and private bonds regarding tax exemption for non-residents in Brazil. In this case, the provisional presidential decree that ruled the topic expired at the end of last year. "The pipeline of projects, infrastructure and others, that need to be backed in Brazil is huge. We need to attract different sources of money and this issue of equality is key for that," he states.

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

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### **BRAZIL'S LUXURY MARKET WORTH R\$74BN, EXPECTED TO DOUBLE BY 2030** ***Bain's exclusive study commissioned by Valor and Vogue reveals a fast-growing market***

The luxury market has become a trend in Brazil: in the last five years, the sector has grown at a rapid pace of 18% and generated R\$74 billion in 2022 alone. The wave should continue to be positive for designers and major brands for the rest of the decade, with an expansion forecast between 6% and 8% per year, which will almost double the size of the sector, reaching R\$133 billion in 2030. These figures are contained in the study "The New Era of Growth in the Luxury Market," carried out by the consulting firm Bain & Company at the request of Valor and Vogue.

The unprecedented study paints a picture of the current situation and prospects for nine segments: fashion and personal items, real estate, automobiles, health, private aircraft, yachts, art, hotels, and fine beverages. These are all segments that generate direct and indirect employment in the country.

The recent expansion of this market is directly related to the growing affluent population. The study shows that in 2022, Brazil had 114,000 people with at least \$1 million in liquid assets, almost double the 64,000 in 2018. The affluent segment of individuals with more than \$100,000 in liquid assets will also nearly double to 1.2 million from 670,000.

This is a segment of the population that in 2022 will have accumulated wealth equivalent to a third of Brazil's GDP, \$717 billion (or R\$3.5 trillion). In 2018, they had the equivalent of \$360 billion.

The Bain & Company study for Valor and "Vogue" estimates that by 2030, the high-net-worth population will reach 133,000 and the affluent 1.36 million, with accumulated wealth of \$1.07 trillion.

The study identifies the drivers of growth in each segment and the potential obstacles. The recent expansion of the Brazilian market has attracted investment from domestic and foreign companies that in other countries have faced a post-pandemic consumption slowdown. Bain reports that the fashion and personal goods segment in Brazil is growing at a rate of 8% to 10%, while the global expansion is in the 5% to 7% range.

The table presented in the study shows that 92% of those with the highest net worth in the country are men and are concentrated in the Southeast region, with São Paulo accounting for half of them, followed by Rio de Janeiro with 16% of this population and 7% in Belo Horizonte.

Luxury spending is balanced between the genders. The study found that women account for 52% of visits to fashion and personal items websites. The data therefore justifies the focus of brands based in Brazil on investing in a product portfolio and new strategies aimed at women.

Young people spend more. It was found that although 75% of Brazil's very high income is in the hands of those over 50, the 35 and under group accounts for 49% of spending. It's no surprise, then, that attracting Millennials and Generation Z is seen as an imperative for the sector.

Fashion and personal items make up the largest segment, with sales of R\$18 billion last year. The methodology considered only the most exclusive part of brands with perceived value and price positioning two digits above mass retail.

Watches and jewelry led the way, accounting for 27% of the share of fashion and personal goods, a percentage close to that of footwear and accessories, with 26%, and clothing, with 25% of purchases.

The figures are partly explained by the fact that high-income customers have started to shop in their own country and have not returned to pre-pandemic levels of spending abroad. There is no specific cut-off point for high-income customers, but Brazilians in general spent \$18 billion abroad in 2019. Last year, such spending was \$12 billion, even with open borders. In 2022, there were a total of 15 million trips, compared to 24 million in the last year before the pandemic.

According to domestic market sources consulted by Bain, the level of Brazilian consumption abroad should only return to the level of four years ago between 2025 and 2026.

"The aspirational consumption of the affluent consumer has also contributed, as the viability of payment options such as installments has boosted the market. [The good phase] is a combination of the migration of the consumption of the high-net-worth segment and the increase of this other customer who doesn't consume as much, it's true, but has realized that there's not so much difference in prices [compared to buying abroad]," said Lívia Moura, a partner at Bain & Company in São Paulo.

She also points out that sales in the premium segment are declining and that clothing, handbags, and accessories are growing faster than jewelry and watches.

In the clothing segment, a luxury item costs three to five times more than the "premium" price, which in turn is already 30 times higher than the popular retail price.

Although 7% of Brazil's richest people live outside the country, according to the survey, the real estate industry reached a turnover of R\$17 billion.

In its study of the luxury market, Bain included in its survey new properties priced above R\$3 million. This part of the segment represented 1% of the units sold in 2022, but 10% of the sales of the entire real estate sector. Of the 3,300 units sold that year, the average key price reached R\$5 million.

Much more was spent on the 107 new helicopters, jets, and turboprops registered with the National Civil Aviation Agency, at an average of R\$75 million. The private aircraft segment, fifth on the list of luxury spending, generated R\$4 billion and has been booming at an annual rate of 22% since 2018. This figure is likely to change significantly in the future, given the transactions that have taken place, such as French manufacturer Dassault's sale of the first two models of its Falcon 10X to Brazil this year, at \$75 million each.

Real estate developer JHSF, which dominates the luxury services sector in Brazil, reported a 74.9% increase in the number of aircraft served at the Catarina Executive Airport in São Roque, in the state of São Paulo, and a 49.8% increase in the number of liters of kerosene used for fueling in the third quarter.

"I tend to think that luxury has become more important than the consumption of the luxury product itself. The concept today has to do with quality, and that applies to all segments. You can't do without it, whether it's the quality of service in a hotel, the finish of a property, or the offer in a shopping mall," said JHSF CEO Thiago Alonso.

Owner of the Cidade Jardim and Shops Jardins malls in São Paulo, the Fazenda Boa Vista real estate development and the Fasano hotel chain, as well as the restaurants associated with this hotel brand, the group is benefiting from the fact that international travel has become "more of an experience for the customer than a moment to shop," according to the executive. "Service abroad is completely different, more distant," he said.

The Bain & Company study for Valor and Vogue also shows that revenue from the sale of luxury cars, the third largest segment in this market with a share of R\$15 billion, surpasses total spending on health, the fourth largest luxury revenue, with R\$13 billion spent on hospitals and laboratories that only accept premium lines.

"Brazil is not crawling in the luxury market, as was thought in the past. There are verticals where we are small in the global package, but this profile is changing," said Bain's Ms. Moura.

The average annual growth of 22% in the yachting segment—which will reach R\$2 billion in 2022, with the sale of 186 vessels of at least 15 meters in length—and the expansion of the art trade, with a turnover of R\$2.7 billion, paint a portrait of increasingly selective behavior and an accurate look.

But the luxury market doesn't just take advantage of the greater wealth accumulated by those with higher net worth. Efforts are being made to broaden the consumer base.

The president of the Brazilian Association of Luxury Companies and director of TAG Heuer's operations in the country, Freddy Rabbat, said that the expansion of the market has been driven by shopping centers, "which have made an effort to prove that the Brazilian consumer is qualified to consume luxury goods."

He said that in the case of luxury cars, foreign automakers such as Porsche have started to lower their profit margins so that top-of-the-line vehicles can enter the domestic market, which is still affected by high import taxes. "If the tax reform as presented really goes ahead, it could unblock the issue and luxury really takes off, creating more jobs in the country. To offer a glimpse, Argentina, even in this crisis, consumes many more watches than Brazil," he said.

Bain's Ms. Moura notes that the study's prediction that the wealth of the high-income population will grow three times faster than the number of people in that bracket by 2030 represents a bottleneck for companies' growth plans in the country. In short, more wealth doesn't mean more customers willing to spend more for the same product.

Anyone hoping to lead the luxury market must also bet on the environmental agenda. To get an idea of its impact on the consumption of the wealthy, the market for electrified cars has grown by 57% in recent years.

On the other hand, the sector must pay attention to the fact that the number of young people between 18 and 30 with a new driver's license decreased by 11% between 2017 and 2021, which also reflects the concern for the ESG agenda, leading to new travel habits.

Circularity is one of the key points of consumption and, the study warns, the resale market for fashion and personal items grew 50% faster than that for new products between 2018 and 2022.

Rachel Maia, a consultant to retail companies on the issue and president of the UN Global Compact in Brazil, said the country has "theoretical awareness" and "liturgical knowledge" on the subject and, given the economic importance of the sector, "luxury can be a precursor to change even for small retailers."

The executive, who was CEO of Lacoste in Brazil and previously worked for Tiffany & Co., argues that "in a very near future in which the product is tracked, companies that don't adapt to the demands will be sidelined in the medium term."

Brazil, the most digitized country in Latin America, has seen online sales triple in the fashion and personal items segment and quadruple in the art segment since 2018. The secure environment for virtual purchases contributes to this significant growth.

The Internet is one of the gateways for the fine drinks segment, which has been shaken by the pandemic and will generate R\$1 billion in sales of wines and spirits priced above R\$500 in 2022. Online commerce in this category is growing at 5% per year, and 53% of customers use information from websites and apps to make their choices.

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

12/08/2023

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## **CHINESE STEEL SURGE PROMPTS APERAM TO RETHINK BRAZIL INVESTMENTS**

***Imports surge by nearly 50%, leading to layoffs at Gerdau, operations halt at Arcelor, and potential furnace shutdown at Usiminas***

Aperam South America has joined other Brazil-based steel companies in revising their plans due to a significant increase in steel imports, notably from China. On Thursday, Latin America's leading stainless steel producer announced halting new investment projects in Brazil, which were expected to exceed R\$500 million.

Gerdau had previously scaled back production at its mills and laid off approximately 700 workers. ArcelorMittal implemented technical stoppages and gave collective vacations to around 400 employees. Meanwhile, Usiminas initiated studies to potentially close one of the two smaller blast furnaces at its Ipatinga, Minas Gerais, plant.

The industry anticipates that steel imports in 2023 will approach nearly 5 million tonnes, a 50% increase, posing a risk of additional plant shutdowns, more layoffs, and potential future shortages. On the other hand, domestic production is projected to decrease by 8% this year to 31.4 million tonnes, with domestic sales dropping nearly 6% to 19.2 million tonnes.

Luxembourg-based Aperam has decided to suspend investments due to an oversupply of imported steel and declining sales in the region. "We are faced with a very challenging scenario, prompting us to reconsider our expansion plans for the coming years," stated Frederico Ayres Lima, President of Aperam South America. He attributes the industry's struggles to a "massive" influx of Chinese steel and a decrease in global demand, which he says are "suffocating the national steel industry."

The company has delayed the next phase of its investment plan, which was initiated in 2021. The cost of these projects remains undisclosed, but they are expected to exceed the current R\$588 million plan, representing the largest investment by the steelmaker in Brazil. The plan involves installing a new high-productivity coil cold rolling mill and could create as many as 1,500 temporary jobs.

According to the Brazil Steel Institute, steel imports from China in September surged 133.8% year-on-year, reaching 549,000 tonnes. Aperam's primary products, stainless and electrical steel, saw an 18% increase in

imports in the year's first half. However, a price drop of more than \$800 per tonne, which Aperam attributes to a "predatory pricing policy," has threatened long-term projects.

"Justifying new investments in the plant is increasingly difficult. The numbers just don't add up," stated Mr. Lima, noting that the steelmaker's production in Brazil has a smaller carbon footprint than China's. For the executive, the situation is "dire and unsustainable," posing "a major threat to the continuity of national production."

The Brazilian steel industry has requested the government to increase the import tax on steel to 25%, mirroring actions taken by the United States, Europe, and Mexico. However, this request has not yet been approved. "If this action isn't taken immediately, the steel industry will struggle to operate sustainably, and the harsh measures currently in place will persist," he stated.

Usiminas's chief financial and investor relations officer, Thiago Rodrigues, identified the influx of "subsidized" imported steel as the company's primary external challenge in 2023. He explained that these products are entering the local market at below-cost prices, rendering competition unfeasible.

The steelmaker is considering shutting down one of the blast furnaces at its Ipatinga plant following the resumption of operations at blast furnace 3. This furnace has undergone a complete refurbishment with investments totaling R\$2.7 billion. "We are currently evaluating the possibility of shutting down one of the furnaces while maintaining our current production level [blast furnace 3 is still in the early stages of operation]," the executive explained.

According to Marco Polo de Mello Lopes, Executive President of the Brazil Steel Institute, the current industry situation presents a "gigantic" risk to the economy. He warns, "If no action is taken, we will face further plant shutdowns, increased unemployment, a steel shortage, and disruptions in the value chains." For 2023, the industry's estimated apparent steel consumption remains steady at 23.5 million tonnes, a revision from the 1.5% growth forecast at the beginning of the year.

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

12/08/2023

### **MINISTRY WANTS TO BAN IMPORTS OF BIODIESEL FOR BLENDING WITH DIESEL**

***National Agency for Petroleum approved a resolution in November allowing imported fuel to be used for up to 20% of the mandatory blend***

The Ministry of Mines and Energy (MME) will present a proposal at the next meeting of the National Energy Policy Council (CNPE) to ban the import of biodiesel for use in the mandatory blend with fossil diesel in Brazil, Valor has learned. Today, the blend is 12%.

The meeting is scheduled for the 14th and the ministry has asked the other ministries that are part of the Council to give their opinion, including the Ministry of Finance, which has not yet finalized its position on the issue.

In a letter seen by Valor, the MME mentions that the National Agency for Petroleum, Natural Gas and Biofuels (ANP) approved a resolution in November allowing imported fuel to be used for up to 20% of the mandatory blend. The measure, which will take effect in January 2024, has provoked a reaction from the production sector.

The Joint Parliamentary Front for Biodiesel (FPBio) asked the CNPE to stipulate that the blend can only be met with national biodiesel, alleging a "breach of isonomy" between market players and claiming that opening up to imports could lead to a "destructuring of the national biodiesel value chain."

The Front emphasized that the industry has a "high level of idleness" following recent investments in new plants and the expansion of existing ones. This would have been a response to the CNPE resolution, which proposed in 2018 to increase the blend up to 15% by 2023.

FPBio also argues that "potential world suppliers" such as Argentina, Indonesia, and China "practice heavy export subsidies and could destroy a significant part of the national park through predatory competition."

The lawmakers also cite the risk to “food security, since the demand for soybean oil for biodiesel production is responsible for the supply of some 20 million tonnes of meal.” The document asks for an urgent analysis of the request.

In an initial analysis, the MME said it should accept FPBio’s arguments that opening up the market could pose “risks to the regular supply of biodiesel.”

Another request from the industry is to bring forward the mandatory blend to 15% from March 2024. Under the current timetable, this level would not be reached until 2026. This issue could also be discussed at the next CNPE meeting.

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

11/12/2023

### **BRASKEM MINE COLLAPSES UNDER LAGOON**

#### ***Part of the cavity opened to explore rock salt breaks off; disaster affects Petrobras***

Part of Braskem’s rock salt mine in Maceió, which is still in danger of a full collapse, crumbled under the Mundaú lagoon Sunday afternoon, worsening the petrochemical company’s crisis in the northeastern state of Alagoas. After displacing 40,000 people, who were removed from five neighborhoods because of the sinking soil, the former mining site still poses the risk of serious environmental damage, in a disaster that is also beginning to affect Petrobras, the second largest shareholder of the company put up for sale by Novonor (formerly Odebrecht).

The geological event, which according to a study by the Alagoas Institute read by Valor could have caused losses of up to R\$34 billion, began Sunday with the collapse of part of Mine 18, which is located underneath the lagoon, an environmentally protected area, and a source of income for thousands of shellfish collectors and fishermen.

Petrobras, which owns 36.1% of Braskem, has not yet commented on the Maceió disaster. In recent days, however, the name of the state-owned company, which has yet to decide whether to sell its stake in the petrochemical company or take control of it, has gained prominence in discussions, especially after the Senate voted to open a parliamentary committee (CPI) to investigate Braskem.

Footage released by the Municipal Civil Defense shows the moment when part of the cavern collapsed, in what the agency classified as an “isolated movement.” According to Mayor João Henrique Caldas, who flew over the site and met with state officials this Sunday, the trend is toward stabilization. “We are evaluating other data. None of the other mines are behaving abnormally,” he said in a statement.

The problem, which has intensified the political dispute between the Alagoas factions in Congress, may have finally brought allies of Senator Renan Calheiros and the Chamber of Deputies Speaker Arthur Lira on the same side. This Monday, the mayor of Maceió, an ally of Mr. Lira, and Paulo Dantas, an ally of Mr. Calheiros, will meet for the first time to discuss the issue. “I proposed a humanitarian pause, if necessary, for the governor to seek an agreement with the City Hall to have access to information about the agreement signed with Braskem,” Mr. Calheiros, who proposed the Braskem CPI, told Valor.

The senator and the government of Alagoas have criticized the R\$1.7 billion agreement signed by the city to cover the damages caused to the community by rock salt mining. They said that the damage is greater and affects towns around the capital. So far, Braskem has set aside R\$14.4 billion between the amounts already paid and the provisions made to deal with the problem. The area at risk, which covers about 20% of Maceió, has already been completely evacuated.

In a statement, the Civil Defense pointed out that the rate of movement of Mine 18 accelerated to 0.52 centimeters per hour, reaching 12.5 centimeters in 24 hours. Since the movement began, the mine has already sunk 2.35 meters. On Wednesday, the Alagoas State Environmental Institute (IMA) ordered the petrochemical company to submit a proposal within 180 days to create a Private Natural Heritage Reserve (RPPN) in the area of risk in the capital of Alagoas. The IMA also banned “any commercial activity” in the region. Last week, the IMA fined

Braskem for the risk of collapse of the mine used to extract rock salt, the raw material at the beginning of the PVC resin production chain.

In a statement, Braskem said that “cameras monitoring the area around Cavern 18 had an atypical movement of water in the Mundaú lagoon, in the stretch above this cavern.” It also said that “a similar movement took place at 1:45 pm.” The ground monitoring system recorded the movement using the DGPS installed in the area. “Braskem continues to cooperate with the authorities,” the press release said. Petrobras declined to comment.

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

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## **VALE BEGINS PRODUCTION OF BRIQUETTES TO REDUCE STEELMAKING EMISSIONS** ***Product will represent half of the company’s agglomerates after 2030***

Vale started on Tuesday (12) the production of briquettes, a product developed by the company to contribute to the global decarbonization process in the steel industry. The first of the company’s two plants, which is also the first briquette factory in the world, was commissioned at the Port of Tubarão, in Vitória, Espírito Santo. Next year, when both plants are operational, Vale will be able to produce 2.5 million tonnes, with demand from 30 customers already guaranteed.

The investment in the two units in Tubarão—which were originally pelletizing plants—amounted to R\$1.2 billion, and the mining company’s goal is to produce 6 million tonnes of briquettes by 2025. Vale’s executive vice president for iron solutions, Marcello Spinelli, said briquettes will account for half of the company’s expected production of 100 million tonnes of agglomerates (pellets and briquettes) per year from 2030.

The material is produced by low-temperature agglomeration of high-grade iron ore known as ore fines. It emits fewer particulates and gases such as sulfur dioxide (SOX) and nitrogen oxide (NOX) than traditional agglomeration processes and eliminates the need for water in the production process.

In steel mills producing steel from blast furnaces, the use of briquettes can replace sintering, the stage in which iron ore is agglomerated, potentially reducing greenhouse gas (GHG) emissions by up to 10%. In direct reduction steelmaking, natural gas is used as an alternative to coke. In this process, briquettes and pellets are used to produce HBI (hot briquetted iron)—an intermediate product between iron ore and steel—which in turn is fed into an electric arc furnace to produce steel with lower emissions than a typical blast furnace.

In the future, by using green hydrogen instead of gas, HBI could enable the production of green steel with zero greenhouse gas emissions. The briquette is part of Vale’s strategy to reduce Scope 3 emissions in the value chain by 15% by 2035. The company has already signed agreements to provide decarbonization solutions with more than 50 customers responsible for 35% of these emissions. The mining company also aims to reduce its direct and indirect net carbon emissions (Scopes 1 and 2) by 33% by 2030, as a first step towards zero net emissions by 2050.

Mr. Spinelli explained that the price of briquettes is similar to that of pellets, although the investment intensity and production costs are half those of pellets.

In addition to the two units in Tubarão—where the company also has six other pelletizing plants—Vale plans to build another eight briquette plants in partnership with customers in regions such as the Middle East and the Gulf of Mexico, as well as in Brazil. The company will look for areas with available natural gas and market opportunities to organize mega hubs—industrial complexes built near customers to streamline energy resources and logistics.

In Brazil, one of the possible sites is the Port of Açu, north of Rio de Janeiro, where competitive gas is available. “The Port of Açu is one of the sites that has the possibility of having competitive gas, and there is interest in developing a steel mill to produce HBI,” Mr. Spinelli said.

After the inauguration ceremony—which was attended by the governor of Espírito Santo, Renato Casagrande—Vale CEO Eduardo Bartolomeo said the company was still studying the possibility of setting up a green hydrogen

plant with Sweden's H2 Green Steel. There is a memorandum of understanding signed between the two companies that could make it possible to use green hydrogen in Brazil for the production of HBI in the future: "It's about finding the right balance between the competitiveness of hydrogen and justifying the investment in an HBI plant," Mr. Bartolomeo said.

The executive also said that the mining company remains "fully committed" to closing the deal on compensation for the collapse of the Samarco dam in Mariana, in the state of Minas Gerais, which caused one of the country's biggest environmental tragedies in 2015. Samarco is a joint venture between Vale and Melbourne-based BHP Billiton.

"We will conclude the agreement as soon as possible," he said. According to the executive, the current discussions are about the legal framework of the agreement and the amounts are not yet on the table. "The legal framework on Mariana is complex, it's the first and most important part of the agreement," said Mr. Bartolomeo, who denied that there were any problems in the negotiation process.

The journalist's travel was facilitated by an invitation from Vale.

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

12/13/2023

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### **REINTRODUCTION OF IMPORT TAX DRIVES DECISION TO BUY ELECTRIC CARS** ***Foreign-made electric cars to face high taxes as of January; price hikes expected***

One of the fanciest avenues in São Paulo, Avenida Europa is known for its car dealers that line up on both sides of the street with windows displaying mostly luxury cars. Last Saturday afternoon, the showrooms of Chinese brands attracted special attention from the crowd of visitors.

Many of them took over the area of BYD (Build Your Dreams). The store's parking lot was full. Those who wanted to talk to one of the many salespersons there had to sign on a waiting list. Some potential buyers were alone, but most brought their families—husbands, wives, children. On the other side of the street, a few yards away, another Chinese company, GWM (Great Wall Motor), also had more customers than in the neighboring stores of traditional brands.

Brazilians are very curious to get to know Chinese cars, especially because these Asian brands have the widest variety of novelties and electric, hybrid, and plug-in hybrid cars.

It's not just curiosity. The movement has increased because the import tax (II) on electric cars produced abroad will be raised from January, which will result in a price increase.

Most importers have not yet said whether they intend to fully pass on the new tax rates, which will be between 10% and 12% in January, and between 18% and 25% in July, depending on the level of electrification.

Fully-electric vehicles, which are recharged only at power outlets, will have the lowest rates. These models have been completely exempt from the tax since 2016.

For hybrids, the tax fluctuates around 4%. Volvo has already said it will absorb part of the new tax, passing on an average of 7.7% to consumers.

The resumption of the full tax rate of 35% for all cars imported from countries that do not have a trade agreement with Brazil will be phased in by July 2026.

The return of the import tax to electric vehicles was expected by the sector. However, importers did not expect rates of 10% to 12% in the first month of the year.

On the other hand, the vast majority of automakers installed in Brazil celebrated the measure. To a large extent, these companies influenced the government's decision.

In addition to the arguments in favor of maintaining the pace of factories and employment in Brazil, many of these automakers have also promised to start producing electrified models in the country—mostly hybrids. However, deadlines are unclear in all of them.

Last week, during the release of the automotive sector's November results, the board of the National Association of Automotive Vehicle Manufacturers (Anfavea) complained about the expansion of the presence of imported cars in the Brazilian market.

The association's data show a 26% increase in the sales volume of vehicles produced in other countries from January to November compared to the same period last year.

On this basis of comparison, Argentina's share of imports fell to 64% from 73% since the beginning of the year, while China's rose to 10% from 3%. There is no tax on cars produced in Argentina, and that is where most of the cars imported by the automakers themselves come from.

In the same presentation, Anfavea was optimistic and confident about 2024. So much so that it brought forward the release of forecasts for next year, traditionally announced in January.

The company estimates for 2024 an increase of 7.7% in domestic vehicle sales, reaching a total of 2.45 million units. In terms of production, an increase of 4.7% is expected, with 2.47 million vehicles. However, the scenario in the foreign market is expected to remain weak. After an expected decline of 17.1% in 2023, exports are expected to increase by only 2% in 2024.

The optimism for next year, according to Márcio de Lima Leite, president of Anfavea, is due to the expectation of a favorable economic scenario, with falling interest rates and inflation under control.

The management of Anfavea follows the analysis of the experts who predict, by the end of 2024, an inflation of 4% and a key interest rate of 9.25% per year.

Interest rates for consumers, which reached 30% per year on car loans in 2022, will tend to fall to 23% from the current 26%, according to the company. Mr. Leite said that the car market is responding to falling interest rates.

The pace of domestic sales began to accelerate in the second half of this year, resulting in an increase of 9.1% from January to November. According to Anfavea, it remains strong in December, with daily averages of registrations of around 14,500 units, above the averages of previous months, which were around 10,000. The company estimates that in 2023, the domestic market will be 8.8% larger than in 2022.

But while long-established Brazilian automakers are celebrating the recovery of the market and the government signals regarding the taxation of imported electric cars, consumers remain curious.

"Mom, look how beautiful this car is," said a young woman as she saw a Chinese electric model on display on Avenida Europa. "Yes, but I still don't think it works for Brazil," the mother replied, expressing concern about the battery charging infrastructure. The salesperson immediately pointed out the solution: "Take this one, a hybrid." The hybrid model does not need to be charged because the energy is generated by an internal combustion engine.

With or without tax, the Chinese are still in business. And they are making plans to produce in Brazil. That's a topic for a few months ahead, though. Between the second half of 2024 and the first half of 2025, Chinese assembly lines are expected to start operating in Brazil. No one doubts that they may bring this date forward.

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

14/12/2023

**CENTRAL BANK'S MONETARY POLICY COMMITTEE SIGNALLED FOR SIMILAR CUTS IN UPCOMING MEETINGS**

***Central Bank's Monetary Policy Committee (Copom) decided to reduce Brazil's key interest rate Selic by 50 basis points for the fourth time, bringing it down to 11.75% per annum, as announced on Wednesday (13).***

In the statement accompanying its final decision of the year, the Committee continued to signal similar cuts for the upcoming meetings should the expected scenario materialize. That suggests a consistent pace, at least until the March 2024 meeting.

The Central Bank, however, emphasized that the external scenario now appears “less adverse” than it was during the November meeting and that the underlying inflation—a measure excluding more volatile items—is nearing the target.

“Should the expected scenario unfold, the Committee members unanimously foresee reductions of the same magnitude in the upcoming meetings and believe this pace is appropriate to maintain the necessary contractionary monetary policy for the disinflationary process,” the Copom stated in its announcement in a section that remained unchanged from the previous decision.

“The Committee emphasizes that the total magnitude of the easing cycle over time will depend on the evolution of inflation dynamics, particularly the components more sensitive to monetary policy and economic activity, inflation expectations, especially those in the longer term, its inflation projections, the output gap, and the balance of risks,” the statement added.

In light of improvements in both domestic and international scenarios, some financial market participants had anticipated that the Copom might remove the term “upcoming meetings” from its future steps guidance, committing only to the pace of the January meeting and leaving room for a potential acceleration later. However, the Committee decided to maintain the indication until March.

The Copom revised its inflation projections downward for 2023, setting it at 4.6%, and for 2024, at 3.5%, both figures being 0.1 percentage point lower than previous estimates. However, the projection for 2025 remains unchanged at 3.2%. The Central Bank forecasts 9.1% for regulated prices in 2023, 4.5% in 2024, and 3.6% in 2025.

Regarding the external environment, the Copom emphasized that it “remains volatile but appears less adverse than at the previous meeting, characterized by the easing of longer-term interest rates in the United States and early signs of a decline in core inflation, which remains at high levels in various countries.”

“Central banks of major economies continue to be committed to bringing inflation rates in line with their targets in a context marked by pressures in labor markets. The Committee assesses that the scenario still demands caution on the part of emerging countries,” the statement explained.

Concerning the domestic scenario, the Committee highlighted that the set of economic activity indicators “continues to be consistent with the anticipated economic slowdown by the Copom.” “The overall consumer inflation, as expected, maintained a disinflationary trajectory, with emphasis on the measures of core inflation, which are nearing the inflation target in the most recent releases,” it stated.

The Copom also maintained the paragraph on the “importance of firmly pursuing” the already “established” fiscal targets, emphasizing their impact on anchoring inflation expectations and guiding monetary policy.

“Considering the significance of achieving the established fiscal targets for anchoring inflation expectations and, consequently, for conducting monetary policy, the Committee reiterates the importance of firmly pursuing these targets,” the statement highlighted.

The Committee continued to include risk factors in both directions in its inflation scenarios, with equivalent weights for upward and downward risks. Among the upward risks, the Central Bank noted “a greater persistence of global inflationary pressures” and “a higher resilience in service inflation than projected due to a tighter output gap.”

On the downward side, the Copom cited “a sharper slowdown in global economic activity than projected” and “the impacts of synchronized monetary tightening on global disinflation proving stronger than expected.”

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

12/14/2023

## **COAMO TO INVEST R\$1.67BN IN CORN ETHANOL** ***Cooperative will build first plant in Paraná to process corn***

Coamo Agroindustrial, the largest agricultural cooperative in Brazil, will invest R\$3.5 billion over the next three years. Of this total, R\$1.67 billion will be allocated to the first exclusively corn-based ethanol plant in Paraná. The unit will be built in the city of Campo Mourão, where the business is based.

With the investment, Coamo aims to improve the verticalization of corn production, increasing value and income to the association's 31,000 members.

The cooperative currently processes 40% of total soybean received in each season and some 30% of the wheat. The idea is to process 20% of the corn received, transforming it into biofuel.

"We are currently using only 2% of the corn we receive to produce feed; the remaining is sold as grain. The corn ethanol industry is an old dream, we have performed multiple feasibility studies and this is the right time for the investment, as the use of biofuels is increasingly growing," CEO Airton Galinari told Valor.

According to him, Coamo had studied other corn-based projects before, including the production of starch, but these did not prove to be feasible.

The ethanol plant will have a processing capacity of 1,700 tonnes of corn per day, which will yield around 250 million liters of the biofuel per year. The plant will use reforestation firewood to produce energy and the system is expected to have a co-generation power of 30 megawatts. "This energy will be used not only by the ethanol plant, but all other units within the Campo Mourão industrial park," Mr. Galinari added.

In Campo Mourão, where its headquarters are located, Coamo currently operates units in soybean processing, oil refining and packaging, margarine production, fat hydrogenation, cotton spinning, feed manufacturing, and one wheat mill.

In Paraná, an existing plant already processes sugarcane and corn to produce ethanol, but it uses a flexible model, developed by Cooperativa Agroindustrial Vale do Ivaí, located in the city of Jandaia do Sul.

Coamo's investments for the next three years also include expansions and updates in 75% of its units in the states of Paraná, Santa Catarina, and Mato Grosso do Sul. The other units were renovated between 2021 and 2023, when the cooperative invested nearly R\$1 billion per year.

While it announces new investments, Coamo also makes an overview of the year. The co-op expects to end 2023 with revenue of R\$30 billion, an 11% increase over last year. "We could have reached R\$37 billion if the price of commodities had remained at January levels," the executive says. He also points out that some of 2023 shipments will not be invoiced before year-end, due to the queue of ships at the port of Paranaguá (Paraná).

According to Mr. Galinari, the drop in the average price of grains—11.9% for soybeans and 28.3% for corn—resulted in the largest stock in the cooperative's history in the period, with around 3.5 million tonnes of a total delivered of 10 million. The typical stock between cycles is around 1 million to 1.5 million tonnes.

"We have recently noticed a stronger movement of farmers towards sales, which will be great to avoid bottlenecks in the beginning of the 2023/24 crop," he said.

Of the total received by Coamo this season, 6 million tonnes were soybeans, almost double the 3.3 million tonnes received in the 2022/23 cycle; 3.5 million tonnes of corn, a stable volume; and 730,000 tonnes of wheat—a year earlier, there were 600,000 tonnes.

Seeking to overcome problems in ports, in addition to investing in local storage, Coamo sought to diversify destinations in 2023, shipping to ports in Rio Grande (Rio Grande do Sul), Antonina (Paraná), Santos (São Paulo), and São Francisco do Sul (Santa Catarina).

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

12/14/2023

#### **PETROBRAS TO DECIDE ON CARBON PROJECT IN 2024**

***Carbon capture, storage could become a service of the state-run oil giant, which has been doing it for over a decade***

Petrobras is set to make a critical decision in 2024 regarding the feasibility of establishing a carbon capture and storage venture. According to the company, ongoing studies are being conducted for the project at the onshore terminal in Cabiúnas, Macaé (Rio de Janeiro). If they yield a positive outcome, it is anticipated that the project will start operations in 2028.

Petrobras has been engaged in carbon capture and storage activities within its facilities for over a decade. In 2023, the state-owned company started testing the possibility of offering this service to industries located in proximity to its operational units.

Vinicius Maia, the Manager of Technological Innovation at Petrobras, said that the project's decision deadline does not necessarily imply abandonment in case of unfavorable outcomes. He said, "If it's not approved, the project will undergo re-evaluation and not necessarily be canceled," during a visit to the Research Center (Cenpes) on Tuesday.

In 2022, Petrobras reinjected a substantial 10 million tonnes of carbon dioxide into its fields. However, the company has yet to estimate the amount that will be reinjected in 2023.

Maria Izabel Ramos, the state-owned company's carbon markets manager, said in June that the company was beginning to see carbon capture and storage as a business: "We started this practice to increase the productivity of the fields. Since we do this capture at our facilities, we can offer it as a service to other industries that are on this path and may need it."

Ms. Ramos further explained that the captured carbon from the Cabiúnas terminal is directed to the São Tomé aquifer in Rio de Janeiro, passing through regions where other industries operate. According to the manager, Petrobras is exploring how this project can be economically utilized while addressing the challenges of establishing pricing based on costs. She said, "Petrobras already has the necessary expertise, understanding the intricacies, including how this gas interacts with pipelines in terms of corrosiveness. Now, we are beginning to consider it from a business perspective."

In its strategic plan for 2024-2028, released at the end of November, Petrobras outlined an investment of \$11.5 billion in low-carbon projects. This amount constitutes 11% of the total \$102 billion earmarked for the forthcoming five years.

Specifically addressing scope 3 projects, which pertain to indirect emissions stemming from the production chain, Petrobras has allocated \$300 million to the hydrogen and carbon capture and storage portfolios.

Furthermore, on Tuesday, Petrobras disclosed ongoing tests to produce renewable aviation kerosene. At the Cenpes Research Center, the oil company has been exploring methods to reduce the fossil content in aviation fuel and strike a balance by incorporating renewable materials into production. The company's experiments have been conducted using soybean oil.

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

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## **CONGRESS OVERTURNS LULA'S VETO ON PAYROLL TAX RELIEF**

***The measure, which benefits the 17 most labor-intensive sectors of the economy, has now been extended until December 2027***

Brazil's National Congress overruled President Lula's veto of a bill that extends payroll tax exemptions for 17 sectors with the highest employment in the country. The Senate voted 60 to 13 in favor of overturning the veto, while in the Lower House the tally was 378 to 78. Business organizations and workers' unions believe this measure will help preserve jobs.

With the veto overturned on Thursday (14), the exemption is now extended until December 2027. Had the veto been maintained, the payroll tax exemption would have expired on December 31 of this year.

The payroll tax exemption scheme permits companies in these 17 labor-intensive sectors to substitute the 20% contribution on wages with a rate of 1% to 4.5% on gross revenue.

Among the 17 sectors eligible for this tax model are the textile, footwear, machinery and equipment, animal protein industries, construction, communications, and road transport. These sectors collectively employ 9 million workers.

During the plenary debate, the bill's author, Senator Efraim Filho, emphasized that the proposal received backing from both the productive sector and workers. "It's a win-win bill, supported by producers, workers, the productive sector, and unions. Everyone supports the payroll tax exemption because it sends a clear message: those who generate more jobs will pay less tax," stated Mr. Efraim.

Before the session, Senate President Rodrigo Pacheco expressed his support for overturning the veto, noting that most lawmakers shared this sentiment despite the government's efforts to uphold it.

"Regarding the exemption, I want to emphasize that this policy is already in place in Brazil for highly employable sectors. It's something that already exists, and we are proposing to extend it, so I believe it's appropriate," Mr. Pacheco told reporters.

He believes that discussions on alternative government proposals should start only after the veto has been addressed. "In my discussions with parliamentarians, I've sensed a tendency towards overturning the veto. From there, we can start a dialogue with the government to find an alternative," he added.

Soon after the veto was overturned, Finance Minister Fernando Haddad said the bill is unconstitutional, announcing that the government would appeal to the Supreme Court. The government argues that the bill violates the Constitution as it lacks a fiscal impact estimate, which is mandatory for creating benefits. However, constitutional lawyers and tax experts consulted by Valor challenge this view, arguing that the approved text merely extends an existing program rather than creates a new measure.

Following the decision to appeal to the Supreme Court, Finance Minister Fernando Haddad announced that the government will propose alternatives to the exemption next week. "We don't intend to harm anyone. We're seeking a solution," the minister stated.

Representatives from the productive sector and workers have lauded Congress's decision to overturn the veto. Vivien Suruagy, president of the National Federation of Call Centers, Installation and Maintenance of Telecommunications and Information Technology Network Infrastructure (Fenintra), noted that parliamentarians recognized the measure's significance for the job market.

"In the 12 years since its implementation, the sectors benefitting from the exemption have created more jobs than those not covered by it. We believe this to be the best social policy, even for the government, as it reduces spending on programs like unemployment insurance and Bolsa Família," she remarked in a statement.

Renato Correia, president of the Brazilian Chamber of the Construction Industry (CBIC), commended Congress for "demonstrating sensitivity and commitment to job creation by overturning the veto." He remarked, "Construction is labor-intensive and requires legal certainty and predictability to provide housing and the urban infrastructure critical for ensuring the population's well-being and quality of life."

The National Association of Newspapers (ANJ) emphasized the decision's role in preventing further difficulties in the sector. "The veto's overturn was crucial to avoid worsening the already challenging situation faced by telecommunications in Brazil. It's a vital sector for democracy, employing a significant number of professionals," said Marcelo Rech, ANJ's executive president and journalist. "We welcome this decision by Congress as a vital support for the social mission of communicative activities."

Antonio Neto, president of the Central of Brazilian Trade Unions (CSB), described the overturning of the veto as "a victory for workers and the productive sector." He added, "The measure reinstates predictability and reinforces decent, formal employment."

Mr. Neto believes that if the Ministry of Finance continues to propose tax reinstatements, such bills should be rejected. He cautioned that the government has yet to engage with workers to discuss the presidential provisional decree written by the Ministry of Finance.

Miguel Torres, president of Força Sindical, a prominent trade union federation in Brazil, acknowledged the importance of overturning the veto but noted that it doesn't preclude the organization from exploring possible alternatives "that bolster employment and enable companies to create quality jobs." "This issue must remain in our focus," he emphasized.

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

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### **IMPORTS COULD SLOW BIODIESEL INVESTMENT IN BRAZIL**

***Industry is already operating at 51% capacity and can increase production to meet higher blends than today without subsidies***

The authorization to import biodiesel, subject to potential review by the government during the National Energy Policy Council (CNPE) meeting on the 18th, is not anticipated to flood the domestic market. However, companies in the sector suggest it could already impede new investments in the industry.

Erasmus Carlos Batistella, owner of Be8 (formerly BSBIOS), one of the nation's largest biodiesel companies, stated that maintaining the import authorization would "certainly lead to a reduction in investments." This year, the company invested in expanding its industrial complex in Marialva, in the state of Paraná. In June, Be8 unveiled an investment of up to R\$1.5 billion to construct a soybean crushing plant alongside the biodiesel plant, following the completion of the sixth expansion, boosting the plant's capacity to 540 million liters per year.

Additionally, Be8 is gearing up for a second investment to augment the capacity of the Passo Fundo plant, in the state of Rio Grande do Sul, to meet the mandatory 14% and 15% blends, according to Mr. Batistella.

Olfar, with three plants in the country, is also cautious about the import permit. Mateus Andrich, the industrial director, mentioned that the company currently has no plans to invest in expanding its industry, with 40% of its total capacity still idle.

Binatural also remains committed to investments. CEO André Lavor shared that the company has spent R\$115 million on its Bahia industrial complex and R\$32 million on the one in Goiás over the last three years. Another R\$100 million is set to be invested in the next three years. Mr. Lavor emphasized, "The import does not affect Binatural's investment plans. We will maintain our commitment to the plans established to meet demand." He added that Brazilian biodiesel is of superior quality compared to foreign biodiesel and favors small producers.

There is a regulatory limitation on imports, as the National Agency of Petroleum, Natural Gas, and Biofuels (ANP) has capped imports to the 20% that distributors are not obligated to purchase of biodiesel produced with the Social Biofuel Seal, using raw material from family farming.

However, a market barrier remains, at least in the short term. Biodiesel from other countries currently does not enter Brazil at competitive prices. Argentina is the supplier with the most potential, but data from S&P Global indicates that the Argentine product arrives at Argentine ports at \$920 per tonne, while Brazilian biodiesel arrives at national ports at \$1,026.

Despite being \$100 cheaper, the Argentine product would still incur the cost to import, including freight, nullifying the price difference, according to Nicolle Monteiro de Castro, a biofuels specialist at S&P Global.

Even in the Northeast, a region with scarce biofuels, Argentine biodiesel cannot compete. The product's value at the port of Rosario in Argentina is equivalent to R\$4.70 per liter (FOB), whereas a recent contract for biodiesel sale on the physical (spot) market in the Northeast, monitored by S&P Global, was R\$4.77 per liter. However, the value of the Argentine product would be impacted by the cost to import and freight to the Northeast, which is higher than to the Center-South, notes Ms. Castro. "Today the arbitrage is closed. It makes no economic sense to import."

The industry is concerned that opening the import window may lead to a decline in domestic prices. Additionally, the sector is grappling with idle capacity. According to the Association of Biofuel Producers of Brazil (Aprobio), this year's production is expected to reach 7.3 billion liters, while the ANP-approved capacity is 14.3 billion liters per year. Industry representatives contend that the plants are already capable of producing B20 at current demand levels.

The mandatory blend stands at 12%, with a scheduled increase to 13% in March. However, there is speculation that the CNPE may vote to defer B14 to the following year.

Fuel distributors and importers are opposed to the reversal of the import authorization. The Brazilian Institute of Oil and Gas (IBP), in collaboration with other associations in the segment, published a note on Wednesday, stating that the import regulations followed the process of impact analysis and consultation with society. The note emphasized that "extemporaneous changes to an agenda that has been extensively discussed with society jeopardize regulatory stability and create uncertainty in the market."

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

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## **PISA REVEALS GAP IN LABOR QUALIFICATION IN BRAZIL**

### ***Low performance of Brazilian students forces companies to increase investment in qualification***

Brazil's almost 15-year stagnation in the Program for International Student Assessment (PISA), an international measure of basic education carried out by the Organization for Economic Co-operation and Development (OECD), highlights the gap separating most of Brazilian school pupils from the best jobs and salaries. It also represents a growing challenge for companies, which will increasingly struggle in gaining productivity, recruiting labor and, as a consequence, will have to increase investments in training.

In this context, the improvement of secondary education, especially by increasing the offer of technical education, is seen as the most immediate bridge to fill the gap between the last results in the global assessment and the future of work in a technological and competitive world.

Released on the 5th, PISA ranked Brazil in 64th position in mathematics, with 93 points less than the mean score by students from OECD — the group of the world's most developed economies. In science, the country ranked 61st, 82 points below the average. Brazil's best performance was observed in reading, achieving 52nd place and scoring 66 points lower than that of 15 to 16 year-old students from OECD countries.

The deficit in the performance of Brazilian students cannot be explained only by the fact that Brazil is not part of the organization and that the country is an emerging economy. Vietnam, for example, scored 469 points in mathematics, same average of rich nations. The struggles by students in this area may reveal important professional deficiencies in the future, even for the simplest activities.

"When the exam reveals 73% of students do not have the minimum skills in mathematics, in practice this means they would not be able to compare two routes in order to choose the best, fastest one. Picture that in a job in the transportation segment. When we see the struggle in converting prices into other currencies, imagine this in the

segment of commerce”, said Daiane Zanon, manager of Data, Assessment, and Monitoring at NGO Instituto Ayrton Senna.

Ana Inoue, a superintendent at Itaú Educação e Trabalho, said Brazil’s stagnation in PISA is an important wake-up call on the quality of education of students entering high school, a period in which they are expected to reflect upon the job market and make decisions regarding their professional development.

“Performance indicators show students are entering high school with delays in basic curricula, such as mathematics, reading or science, which impairs the continuity of their school life. This is the main point and, in this sense, coordination with professional and technological training becomes increasingly important at this stage of education to support the development of youths in their professional qualification so they can work in different fields,” Ms. Inoue said.

In this scenario, companies are increasingly compelled to invest to supplement the qualification of youths entering the job market. Airam Corrêa, an economist and consultant on the future of work, mentions the “stakeholder economy” as an inspiration for the private sector to further invest on education. This new concept suggests that companies seek to create long-term value by taking into account the needs of all stakeholders involved in the business.

“Companies can have universities, schools that are available for entire municipalities, for example. In Germany there are large, open training programs, such as the Bosch University. Companies should be aware of such invitations by the stakeholder economy”, Mr. Corrêa said. In his opinion, although it is an important player, the private sector is not enough.

Aware that the current structure of secondary education is not enough to prepare youths for the job market, the federal government has taken the responsibility of expanding the network of federal education providers. The goal is to increase the percentage of high-school students with technical training, currently at 11%. The OECD average is 37%.

Initially, the government increased R\$690 million in this year’s Budget through the so-called Transition proposal to amend the Constitution (PEC). The new version of the Brazilian Growth Acceleration Program (PAC) includes the construction of one hundred new campuses, which will cost R\$2.9 billion and are expected to create 140,000 slots. The Ministry of Education has also authorized the hiring of 1,383 teachers by federal institutes, which will allow the addition of some 27,000 new enrollments. Investments of R\$1 billion in improvements to existing facilities are also included in the New PAC.

The inclusion of youths in the job market does not depend solely on training. Another challenge is to create demand, according to Rogério da Veiga, deputy secretary for Coordination and Monitoring of Public Policies at the Chief of Staff Office. He is in charge of the “Qualifica PAC”, a professional qualification program aimed at connecting workers to the program’s labor needs.

The Ministry of Mines and Energy recently estimated in 5,000 electricians the demand by projects involving the construction of new power transmission lines. Qualifica PAC’s mission is to identify these professionals, assess their skills and, if necessary, offer qualification for specific demands, in this case the operation of substations.

“We have the challenge of increasing results with the existing investments. The program’s effort is to allocate as many people as possible to the areas in which they received training and also to quickly provide qualification to meet specific demands,” Mr. Veiga explained. “We need to know where these professionals are, if they are working in their field or if they’re currently working as an Uber driver,” he noted.

While the large number of people working on ride-hailing or delivery services suggests the lack of opportunities in better paid areas, on the other hand it reveals the path of no return for digital economy. The fast-paced change in the list of skills required by the job market makes the challenge of preparing the youths for the future even more complex.

“When you think of a shifting job market, of the issue of automation, with a greater demand for jobs requiring proficiency in technology, you realize that these youths are far from being qualified”, Ms. Zanon said. “When it comes to socio-emotional skills and cognitive skills for solving complex problems, Brazil could experience challenges in this context.”

The Ministry of Education is currently offering training in areas that are expected to drive the demand for workers in the coming years. There are, for example, training programs in the areas of renewable energy and bioeconomy, promising fields in a scenario of energy transition. More broadly, the construction industry is expected to remain as the major vector for hiring workers, especially in the context of the PAC.

“Socioeconomic opportunities create educational opportunities. In most cases, only those who have already had some socioeconomic opportunity will enter banks and innovation companies,” Mr. Corrêa, a partner at Wisnet consultancy firm, said. “Productivity means education and human capital. If we fail to invest in human capital, our productivity item will suffer. This creates a scenario of seized prosperity. I don’t understand why Brazil is not talking about it, while we see our youths working with delivery-service companies.”

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

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### **ON THE RISE, GREEN JOBS FACE CHALLENGES**

#### ***Reversing environmental laws and loosening fiscal restrictions pose challenges to achieving faster growth***

The number of green jobs that contribute to environmental preservation and are sustainable from an environmental standpoint has reached record-breaking levels in Brazil, with the potential for even more robust growth, as indicated by experts. Such expansion, however, hinges not only on investment but also on training and political guidance for the energy transition.

In October 2023, green jobs reached 2.34 million formal workers, accounting for 5.2% of the total formal jobs with signed contracts in Brazil, according to data from the General Register of Employed and Unemployed Workers (CAGED), compiled by LCA Consultores. In October 2022, this number stood at 2.26 million; five years prior, it was 2.11 million.

According to a recent publication by the International Renewable Energy Agency (IRENA) in collaboration with the International Labor Organization (ILO), Brazil created 1.4 million jobs in the renewable energy sector in 2022, representing 10% of global vacancies. These figures differ from the CAGED data due to variations in methodologies.

The ILO estimates that by 2030, 15 million new green jobs will emerge in Latin America, with half expected to be in Brazil. Furthermore, according to predictions by the IRENA, if an ambitious energy transition is undertaken, the world could witness the creation of 38.2 million new jobs related to renewable energy within the next seven years.

Data compiled by LCA reveals that out of 1,357 economic activity subclasses, 129 of them, accounting for 9.5%, belong to five major groups contributing to a more sustainable economy. These groups include forestry production and management; sanitation; waste management; environmental stewardship; renewable energy generation and distribution; maintenance, repair, and recovery of products and tangible assets; and alternative road and air collective transportation.

According to Bruno Imaizumi, an economist at LCA Consultores, the formal sector in Brazil has been setting records in terms of green job creation, owing to the country’s abundant natural resources. However, this does not exempt the nation from facing significant challenges ahead.

“We are rich in natural resources, but many individuals working in sectors such as recycling, for instance, operate within the informal economy,” he remarked. “We need to find more beneficial ways to incorporate these individuals into the job market.”

This predicament pertains specifically to garbage and recyclable material collectors and waste sorters, occupations typically characterized by informality and important for reducing environmental impacts.

Mr. Imaizumi references microdata from the Continuous National Household Sample Survey (PNAD) to highlight that, as of June 2023, there were 544,000 individuals employed in these roles, earning an average income of R\$1,282, which falls below the minimum wage.

Vinícius Pinheiro, the ILO representative for Brazil, underscores the need to integrate all these positions into the framework of a just energy transition. “This concept entails the notion that, during the transition towards a more sustainable economy, jobs that might be phased out should be considered to transform them in an organized manner, thereby addressing issues of inequality and labor informality,” he explained.

An uncoordinated approach to making an energy transition can potentially trigger poverty and give rise to political issues. Notably, in countries like the United States and Brazil, movements have been opposing the green economy, often citing concerns about job destruction, which has sparked political repercussions.”

According to Mr. Pinheiro’s perspective, Brazil has several avenues to explore for emissions reduction, including the agricultural sector, where measures can be taken to curb emissions, as well as the transportation sector, where efforts can focus on increasing the adoption of electric vehicles. Additionally, there’s room for improvement in waste management across the production chain and the energy sector.

He remarks, “A decrease in the demand for jobs in the fossil fuels sector is anticipated, potentially resulting in unemployment or income loss for workers in this field. However, this may be counterbalanced by an uptick in job creation within the renewable energy sector.”

Within the ILO’s classification, alongside the category of green jobs, there are also “brown” jobs. These roles are closely linked to the exploitation of natural resources and encompass activities such as mineral extraction, primary industries, construction, agriculture, livestock farming, tourism, and hospitality.

In October 2023, the formal workforce within this category reached 8 million, accounting for 17.8% of the total workforce.

According to the IRENA’s estimates, in 2022, Brazil witnessed the creation of 856,000 direct and indirect jobs in the biofuels sector, where Brazil holds a prominent global position. This figure was accompanied by 241,000 jobs in solar energy generation, 194,000 in hydroelectric energy, 68,000 in wind energy generation, and 41,000 in solar thermal energy.

Despite the country’s advantageous position, with approximately 60% of its electricity matrix sourced from hydroelectricity and over 80% from renewable sources, Mr. Imaizumi outlines various obstacles for the country to advance in the transition to a low-carbon economy.

He notes, “In addition to setbacks in environmental legislation in recent years, factors such as the limited regulatory capacity of federal, state, and municipal authorities, two economic crises within the last decade, and fiscal constraints affecting areas such as education, the environment, and technology all act as impediments to the accelerated growth of green jobs.”

He contends that although progress toward a decarbonized economy was sluggish until a few years ago, this transformation is now gaining momentum, driven not only by environmental concerns but also by geopolitical factors and the pursuit of enhanced energy security.

The ILO has cautioned that the shift toward a green economy within the construction sector will need greater public sector involvement. In a report, the organization stated, “The transition to a more sustainable and inclusive economy cannot rely solely on market forces; it requires deliberate efforts.”

Mr. Pinheiro asserts, “Brazil has the potential to make further advancements. First, we must ensure this transition to a low-carbon economy is equitable and just. It entails all three levels of government developing transition plans with well-defined objectives, including safeguarding the interests of workers and vulnerable communities, such as indigenous populations.”

He emphasized that another critical aspect in driving this progress is the need for training to cultivate the skills necessary for the transition to a green economy.

“This will require investment and qualification. It won’t be a seamless transition to move someone from a role in the fossil fuels sector, for instance, into the green hydrogen field,” he noted, underscoring that the renewable energy sector creates more job opportunities than the fossil fuel sector. “Creating opportunities won’t be effective unless the groundwork is laid.”

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

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### **FIXED INCOME IN BRAZIL ATTRACTIVE, BLACKROCK SAYS**

***The world’s largest asset manager said that high real interest rates make the country stand out compared to other emerging markets***

BlackRock, the world’s largest asset manager with \$9.4 trillion under management, has been increasing its bets on emerging markets, particularly fixed income, which it sees as increasingly attractive, the firm’s global allocation manager Russ Koesterich told Valor. He highlights Brazilian debt as one of the favored assets within the category.

“Brazilian real interest rates are very high, and we find them appealing relative to other emerging markets,” Mr. Koesterich stated in an interview at the company’s São Paulo office on Thursday. “We also see promising opportunities in Mexican debt, another emerging market we favor. Our exposure to equities is lower, partly due to our cautious stance on China.”

Mr. Koesterich notes that while China’s expected economic slowdown could negatively impact Brazil, it might also bring benefits. “Investors are reassessing their emerging market exposures. There’s growing interest in indices excluding China. In the long run, as the emerging market basket diversifies, other countries could stand to gain.”

The manager expressed optimism about the currencies of emerging markets, including the Brazilian real. He believes these assets are gaining interest, particularly if there’s a relaxation in U.S. monetary policy and a global weakening of the dollar in 2024, which would encourage capital flows into emerging markets.

He anticipates that the Federal Reserve (Fed) will likely begin reducing interest rates in the U.S. between late spring and early summer (Northern Hemisphere). This move would mark the start of a monetary easing cycle, expected between the end of the first half of 2024 and the start of the second half. His projection is more conservative than current market expectations.

Mr. Koesterich believes that the extent of the easing in monetary conditions will be influenced by the state of the U.S. economy, particularly the occurrence or avoidance of a recession. “If a recession is averted, the Fed will likely aim for the neutral interest rate, around 3.5% to 4%.” Currently, the key interest rate in the U.S. stands between 5.25% and 5.5%.

While Mr. Koesterich is increasing his exposure to U.S. fixed income—moving from below average to a neutral position—he remains cautious about long-term U.S. government bonds. He acknowledges that there will continue to be demand for U.S. Treasury debt, but the premium investors will require in a context of high bond supply is uncertain. “This is happening at a time when China is reducing its Treasury purchases, and the Fed is downsizing its balance sheet. We are more positive on fixed income overall, yet there are segments of the market where we remain somewhat cautious.”

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

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