



**Brazil - U.S.
Business Council**

Brazil Bulletin

Interview: Roundtable on Brazil's worsening water shortage, with Edilson Carlos, head of NGO Trata Brasil, José Eduardo Ismael Lutti, Chief São Paulo Prosecutor for Environmental Affairs, and Ivanildo Hespanhol, Director of the Center for the Re-utilization of Water Resources

--"Water management should never be left in the hands of the politicians."--

Water has become one of the biggest issues in today's Brazil. While it's a major problem, it's also a major business opportunity, according to a panel of experts at a recent Fiesp seminar. A great irony is that Brazil, with the world's largest supply of fresh water, is also one of the most poorly managed when it comes to distribution, treatment and re-utilization. Brazil's largest state of São Paulo, in particular, may face severe water rationing later this year because of dwindling reserves. Excerpts follow:

- **Edilson Carlos:** "Brazil is living in the 21st Century with 19th Century water and sewage infrastructure. Some 38% of our drinking water goes to waste because of inefficiencies in the distribution system. Some 52% of Brazilians have no access to sewage systems. Water is siphoned from the system by slum dwellers the same way electricity is stolen. There are about three million people in Greater São Paulo alone who do this. Only 37.5% of sewage is treated. That's why we have ocean beaches and river systems that are so polluted they can't be used for recreation, tourism, fishing or any other purpose."
- **Ivanildo Hespanhol:** "We're still using the Roman-era concept of bringing water from the countryside to the big city via aqueducts. But that's not a sustainable policy. To make water supplies sustainable, we need to do a number of things. One is conservation. Another is to find ways of re-utilizing water. There are a great number of new technologies for the re-capture, treatment and re-utilization of water and there is a growing market for the equipment related to these technologies."
- **José Eduardo Lutti:** "Brazil has the biggest fresh water reserve in the world, because of the Amazon and other river systems. But we have one of the world's worst water distribution systems. We have plenty of legislation, but it's not enforced. It's in the hands of the politicians. It's an election year and so we won't have water rationing in São Paulo until after the election. So, São Paulo will use up its strategic water reserves in order to get us through the election campaign. Imagine the kind of rationing we're going to have *after* the election. Water management should never be left in the hands of the politicians."
- **Edilson Carlos:** "We will need investments on the order of R\$70 billion through 2025 to meet even minimum water and sewage requirements for the Brazilian population. Water will need R\$22 billion and sewage R\$48 billion."

- **Ivanildo Hespanhol:** “Re-utilization of water resources in Brazil is still at the starting gate, but it’s an area with a huge growth potential. Companies should be investing more in these technologies. There’s a market for them.”

Top News of the Week

Auto manufacturers retrench as sales plunge and inventories pile up. The Brazilian auto industry is facing something of an inventory recession, with layoffs and short-term shutdowns reaching a crescendo in April. The latest figures available show March motor vehicle output of 271,200, a steep 17.6% decline from March of 2013. March sales of 240,800 plunged 15.2% from the same month a year ago. Over-production in 2013 and early in 2014 has led to a pile up of inventory, with 387,100 vehicles waiting on patios for buyers. Inventory is equal to 48 days of demand, the highest level since November of 2008. Part of the problem is the domestic economy. Consumers face inflation, job security worries and high levels of indebtedness. Rising interest rates, with the base rate a towering 11.0%, have exacerbated the dilemma for an industry heavily dependent on consumer credit. But exports are also a problem, with major customer Argentina retrenching because of its own recessionary economy. The industry has responded with a series of measures directly affecting some 19,000 auto workers. Eleven of Brazil’s 20 auto makers have adopted layoffs, short-term shutdowns or reductions in work hours. Industry executives call the measures temporary, saying they expect a rebound later in the year.

BNDES boosts projection for 2014-17 investments to R\$733 billion. Total public and private investments in Brazil’s economy will reach R\$733 billion during the period 2014 to 2017, according to a revised projection last week by the Brazilian Development Bank (BNDES). The forecast is up from R\$697 billion, for the same period, released by the BNDES last October. The investment outlook has improved in recent months for a number of reasons. One is expectations for a broad international economic recovery over the next half decade. Another is expansion of the Brazilian government’s concession program, which should spur greater private investment activity and help improve the nation’s infrastructure. Better infrastructure, in turn, will encourage investments by manufacturers and agribusinesses. Several segments saw major increases in investment expectations between October’s evaluation and the BNDES’s latest projection. Paper and pulp, for example, is likely to see investments of R\$26 billion, up from the October forecast of R\$18.6 billion. Mainly an export industry, paper and pulp will gain from the global recovery and from improved Brazilian roads and ports. Aircraft industry investments should total R\$14 billion, not the originally planned R\$9.4 billion, because of rising global demand. Other segments seeing increased investment expectations include oil and gas, steel and chemicals.

Busy week in IT: President signs Internet bill, hosts global conference. It was a busy week for Internet Technology in Brazil. Highlights included the following:

- President Dilma Rousseff signed an Internet regulation bill after a long gestation in Congress. The legislation provides for so-called Internet neutrality, meaning providers cannot charge different fees for different online velocities or services. The new law also protects individual privacy and consumer rights. The government withdrew a provision that would have obliged providers to maintain data centers on Brazilian soil.
- In an online interview with Internet users, President Rousseff said, “In Brazil, every data package will be treated equally. This can become a model for Internet governance worldwide.” She said the government will not insist on the idea of domestic data centers, saying the issue has become moot.
- President Rousseff hosted a two-day international conference on the Internet in São Paulo. She took the occasion to blast U.S. electronic spying, telling delegates, “It was unacceptable when it was discovered and it’s still unacceptable.” The final conference document endorsed global Internet neutrality and called for input from more nations in Internet governance, which is still largely coordinated by a U.S.-based entity known as ICANN (Internet Corporation for Assigned

Names and Numbers). The conference endorsed a watered down version of a statement critical of so-called Big Data electronic surveillance.

Supreme Court justice opens door to congressional probe of Petrobras. Supreme Court Justice Rosa Weber last week granted an injunction, sought by opposition members of Congress, ordering an immediate congressional investigation into allegations of influence-peddling, bribery and administrative irregularities at state-run energy company Petrobras. The injunction had the effect of blocking a pro-administration move to expand the congressional investigation into unrelated scandals, some involving state governments controlled by opposition governors. A spokesman for Senate President Renan Calheiros, however, said the Senator may seek to overturn the injunction by appealing to the whole 11-member Supreme Court. Opposition parties are seeking to probe irregularities into the Petrobras purchase of an oil refinery in the United States as well as allegations of money laundering, bribery and graft in construction of the Abreu e Lima refinery in Pernambuco and the purchase of offshore oil drilling equipment overseas.

Government takes steps to assure energy supplies, hold down rate hikes. Brazil's government continues to take steps to guarantee electric power supplies through the end of the year without the need for short-term rate increases or rationing. Last week, the government engineered a three-year, R\$11.2 billion loan from 10 private and public banks. The loan money will be made available to electric power distributors nationwide via the National Electric Power Exchange (CCEE). The loan money will help distributors pay for increasingly expensive power without the need for immediate rate hikes. Distributors will be authorized to raise rates starting in 2015 as a means to repay the loans, which come with a variable interest charge equal to the average national certificate-of-deposit (CDI) rate plus 1.9%. In a related move, the CCEE will hold an emergency auction this coming Wednesday of up to 3,000 megawatts of power in efforts to guarantee supplies for distributors. Electric power supply costs have risen drastically this year because of a drought in key regions of the country. The drought has reduced supplies of hydro-electric power.

Business News

Investment News:

The Brazilian subsidiary of **Renault** last week announced a R\$500 million investment in its existing plant in São José dos Pinhais, Parana. The factory will begin manufacturing two new models by 2019. A parallel investment of R\$240 million will expand the company's distribution of auto parts over a period of ten years.

Company News:

The Brazilian unit of global rail and logistics giant **GE Transportation** last week announced successful completion of a two-year test of a new bio-diesel fuel mix. The mixture includes 25% bio-based diesel. Under current laws, retailers of diesel fuel are obliged to use a mixture containing at least 5% bio-diesel. Brazil's Mines and Energy Ministry is studying proposals to gradually raise the ratio. The GE test could help convince authorities that an increase is technically feasible. GE Transportation has some 2,000 locomotives as part of its Brazilian operations.

Brazilian Calendar

Tuesday, April 29, Central Bank release of monthly figures on lending volume, interest charges and defaults, Brasília

Wednesday, April 30, Central Bank release of monthly primary budget surplus data, Brasília

Thursday, May 1, National Labor Day holiday

Friday, May 2, Trade and Development Ministry release of monthly foreign trade data, Brasília

Indicators

Foreign exchange rate: **R\$2.24 = \$1.00**

Brazil showed a small improvement in its **current account** performance in March but not enough to reverse the trend toward record deficits this year. March produced a current account deficit of \$6.25 billion for a 12-month gap of \$81.6 billion, or 3.64% of GDP, according to Central Bank figures released last week. The performance was a bit better than February, when the monthly deficit was \$7.5 billion for a 12-month figure of \$82.5 billion. March performance was better because of a decline in Brazilian tourist spending overseas and a move away from trade deficits toward modest surpluses. The current account deficit is no longer financed entirely by foreign direct investment. March FDI was \$5.0 billion for a 12-month total of \$65 billion. The balance of the current account deficit is being financed by volatile short-term portfolio investments.

