Brazil-U.S. Business Council
Brazil Bulletin

Interview: Glaúcia Mendes Souza, Coordinator of the Bioenergy Program at the São Paulo Research Foundation (FAPESP); Glaúcia Terreo, Director of the Global Reporting Initiative (GRI) for Brazil; Braúlio Dias, Executive-Secretary of the United Nations Convention on Biological Diversity; and Mauro Rebelo, Partner in bio-diversity start-up Bio Bureau

--"What you don't know how to measure, you don't know how to manage."—

Brazil is the most biologically diverse country on the planet. But efforts to both protect, and develop, bio-diversity have developed slowly. Various experts, in both the private sector and in government, have been working hard in recent years to change that. Some of them spoke about bio-diversity during a recent meeting at the São Paulo Federation of Industries (FIESP). Excerpts follow:

- **Glaúcia Mendes Souza:** "What our research points to is the need for integrated policies. We studied 2,000 different research surveys and sources dealing with everything from production to distribution and markets. We measured the potential for expansion in the use of bio-fuels and we took a critical look at their potential impact. Our report confirms the value of bio-fuels as an energy alternative."

- **Glaúcia Terreo:** "What you don't know how to measure, you don't know how to manage. The GRI (Global Reporting Initiative, developed in 2000 by the Dutch government) is a free, online tool designed to start a global discussion. It's available on the GRI site in a Portuguese-language version. It can be used by companies, consultants—in short, anyone in any sector. We are bringing these indicators to the attention of businesses, but not just to mention somewhere on an annual report. These indicators are designed to help develop policies that will lead to sustainable growth."

- **Braúlio Dias:** "Brazil is the country that conducts the most research on tropical conditions and is recognized as such internationally. Brazil is a leader when it comes to the issues of bio-diversity and climate change. But Brazil can't rest on its laurels."

- **Mauro Rebelo:** "What's lacking in Brazil is private investment in development of science and technology, including development of technologies based on scientific research that has already been completed. Bio-diversity is Brazil's comparative advantage. Bio-technology is the key that unlocks that advantage."

- **Dias:** "Brazil has made great strides on bio-diversity in the last 20 years. The country has gained international recognition for creating protected areas so that bio-diversity can continue to flourish. Brazil has gradually reduced the pace of de-forestation in the Amazon. The latest Brazilian legislation allows for online registration of genetic products. It creates a national program and a national fund for sharing the fruits of such products. The profit and the knowledge from such research and development will be shared widely by society."

Top News of the Week

Standard and Poor's puts Brazil's sovereign credit rating on alert. International credit rating agency Standard and Poor's last week downgraded its outlook for Brazil's sovereign rating to "negative" from "stable." The Tripo-B-Minus rating remains unchanged but could be revised downward at some point within the next 12 to 18 months. An eventual ratings downgrade would remove Brazil from the coveted ranks of "investment grade" sovereigns, placing it in the "speculative" category. That, in turn, would trigger a wave of automatic disinvestments from Brazil by conservative pension funds and other institutional investors. In announcing the move, S&P pointed to a number of factors raising red flags among analysts and investors. The most prominent problem is Brazil's deteriorating public accounts, a factor which is underpinning persistent inflation and causing interest rates to rise. The ratings agency also cited the inability of Brazil's Congress to come to grips with needed austerity measures. S&P also cited continued investigations into corruption at state-run oil company Petrobras.

Central Bank hikes base rate to 14.25%, signals pause in monetary tightening. Brazil's Central Bank last week hiked its base interest rate by a half percentage point to 14.25%, the highest rate since 2006. The bank's Monetary Policy Committee voted unanimously for the hike. It was the seventh rate increase in a row. But in an accompanying statement, the bank hinted that it will now seek only to "maintain" the new plateau rather than ordering new hikes. The cycle of monetary tightening has been aimed at containing persistent inflation, now running at nearly 9% per year. The bank said its current goal is to pull inflation down to an annual rate of 4.5% by the end of 2016.

President signs minimum salary law, but vetoes linkage to retirement benefits. President Dilma Rousseff last week signed a generous minimum salary law passed in June by Congress. The law continues the practice, inaugurated in 2005, of annual increases in the minimum salary equal to previous-year inflation plus GDP growth from the year before that. The law amounts to an inflation-plus annual hike in wages for a majority of Brazilian workers. But the President vetoed a section of the bill linking the minimum salary increase to annual hikes in all retirement benefits. Currently, only the lowest rung of benefits gains the full minimum salary hike, while other benefits are awarded increases based on a sliding scale. Administration officials said the bill, as originally passed by Congress, would make the country's social security system unsustainable. The system already runs an annual deficit. Government economists said the original bill would have increased benefit costs by about R$9.2 billion per year.

Business News

Investment News:

British beverages group **Britvic** last week announced the purchase of Brazilian family-owned fruit juice company **Ebba**, maker of popular brands Maguary and Dafruta. Britvic will pay R$580 million for Ebba. The British company said it will invest heavily in its new property, doubling capacity and introducing British brand names into the Brazilian market.

The Brazilian subsidiary of **General Motors** last week announced that it will double its planned investments for the period 2015 through 2019 to R$13 billion. The announcement was made by GM's International President Dan Ammann while visiting São Paulo. The investment is part of a broad global program by the U.S. auto giant. The money will be used to upgrade the Brazilian subsidiary's technology and prepare a platform for production of a new family of motor vehicles.

Company News:

Despite losses, scandals and other hard knocks, Brazil's state-run oil giant **Petrobras** managed to hang on to its previous ranking in this year's Fortune 500 list of the world's biggest companies. For the second year in a row, Petrobras was listed as 28th and continues to be Latin America's biggest corporation. But *Fortune* analysts warned that continued losses could bring the company down in the rankings starting in 2016. Six other Brazilian companies were also listed this year, including banking behemoths Itau, Banco do Brasil and Bradesco, mining giant Vale, meatpacker JBS and conglomerate Ultrapar.

Brazilian mining giant **Vale**, the world's largest iron ore miner and exporter, posted second quarter earnings of R$5.1 billion, the company said last week, its first profits after three straight quarters of losses. The company lost R$9.5 billion in the first quarter of 2015. The reversal came because of a stable foreign currency environment in the second quarter, allowing the company to consolidate its overseas debts. Vale also benefited from cost cutting and export of higher quality ores.

Brazilian Calendar

-**Monday**, August 3, Trade and Development Ministry release of monthly foreign trade figures, Brasília

-**Monday**, August 3, 14th Brazilian Agribusiness Congress, Sheraton WTC Hotel, São Paulo

-**Tuesday**, August 4, Brazilian Census Bureau release of monthly industrial production figures, Rio de Janeiro

-**Tuesday**, August 4, Seminar on "Outsourcing and the Brazilian Labor Market," O Estado de S. Paulo headquarters, São Paulo

-**Wednesday**, August 5, Seminar on "The New Face of Brazilian Bureaucracy," São Paulo Commercial Association

-**Thursday**, August 6, Seminar "A Growth Agenda for Brazil," Getúlio Vargas Foundation, Rio de Janeiro

-**Friday**, August 7, Brazilian Census Bureau release of monthly IPCA inflation figures, Rio de Janeiro

-**Friday**, August 7, National Motor Vehicle Manufacturers Association release of monthly auto production, sales and export figures, Hotel Mercuré, São Paulo

Indicators

Foreign exchange rate: **R$3.43 = $1.00**

The Getúlio Vargas Foundation's **ICC** consumer confidence index for July weighed in at an all-time low of 82.0 points, down from 83.9 in June. The index runs from 1 to 200, with 100 considered neutral. Consumer confidence has been sinking since the beginning of the year. A year ago, in July of 2014, the index was still showing positive sentiment at

106.9 points. Confidence has declined on rising consumer debt, stagnant wages and 9% inflation.

Interest charges to businesses and consumers continued their advance in June, according to Central Bank figures released last week. The average interest rate charged on all loans in June was 27.6%, up from 27.1% the previous month and 23.9% in June of 2014. Rising rates reflect the Central Bank policy of monetary tightening as a strategy to pull down inflation. Total **lending volume** rose in June by 0.6% from May and 9.8% from June of 2014 to R$3.1 trillion.

Brazil's government continues to fall behind critically important year-end fiscal targets, as evidenced by Central Bank figures on **budget performance** released last week. June saw a monthly primary budget deficit of R$9.3 billion, up from a May deficit of R$6.9 billion. The 12-month rolling deficit grew from R$38.5 billion to R$45.7 billion, or 0.8% of GDP. The government is committed to a year-end surplus of 0.15% of GDP. Deteriorating public accounts have contributed to investor unease, continued currency depreciation and a possible sovereign rating downgrade.