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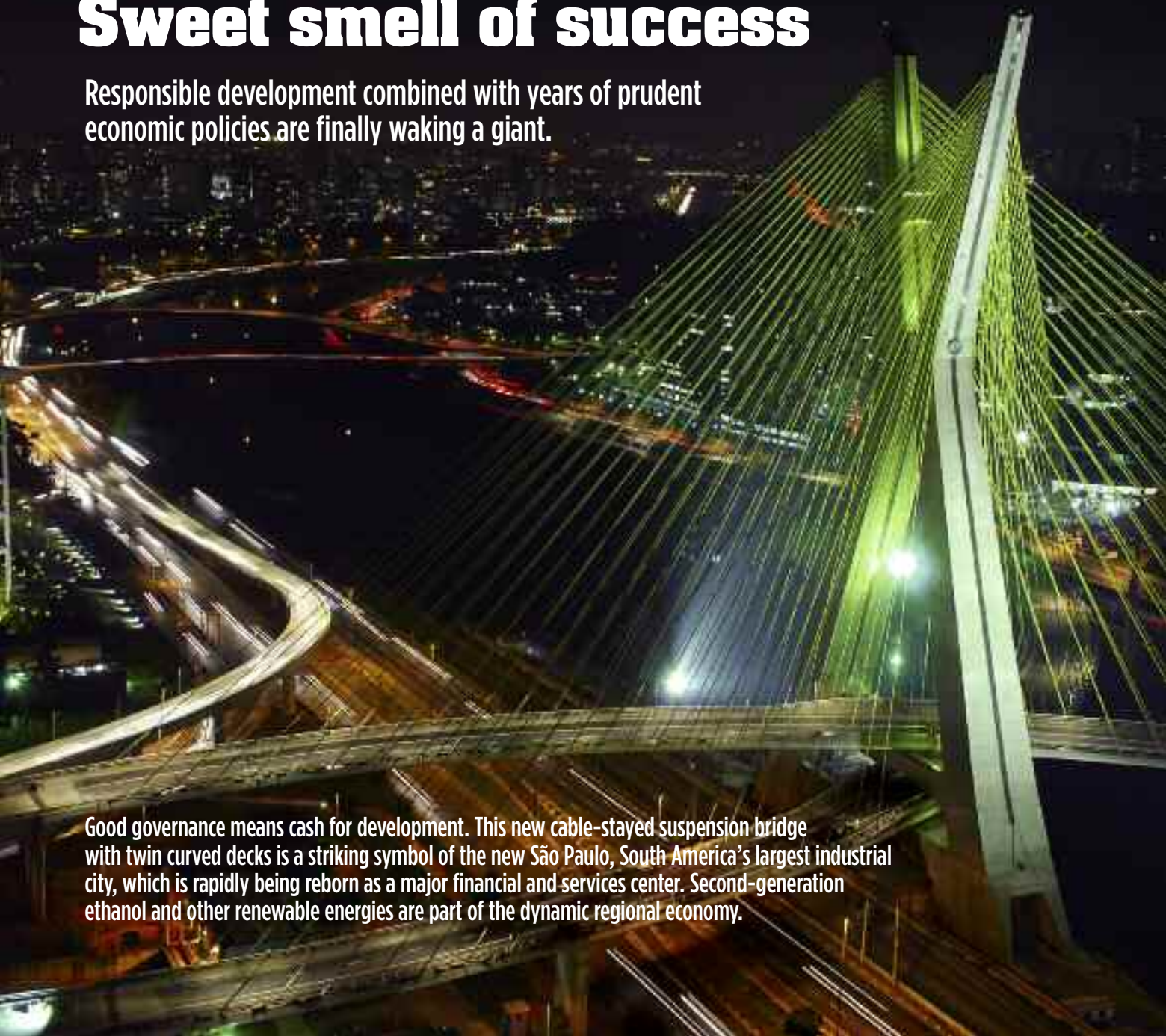
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SÃO PAULO

Sweet smell of success

Responsible development combined with years of prudent economic policies are finally waking a giant.

Good governance means cash for development. This new cable-stayed suspension bridge with twin curved decks is a striking symbol of the new São Paulo, South America's largest industrial city, which is rapidly being reborn as a major financial and services center. Second-generation ethanol and other renewable energies are part of the dynamic regional economy.



Introduction

THE REWARDS OF GOOD GOVERNANCE

What a difference a period of good governance can make! For decades, Brazilians and foreign residents, exasperated by rampant bureaucracy and political failure to tackle glaring basic problems, have joked that “Brazil is the country of the future—and always will be.” But no longer. Subtly, the paradigms have changed. In recent years, mounting evidence, and growing recognition, demonstrates that the world’s fifth largest nation, long an economic and social underperformer, is finally getting its act together. Successive administrations are consolidating the democratic tradition of peaceful transition between opposing parties and gradually modernizing the machinery of government.

Since Brazil cast off military rule in 1985, civilian governments of various hues have gained competence at all levels—federal, state, and municipal—albeit not yet in every corner of this USA-sized country. Good governance is perhaps most visible in economic policy, where conservative fiscal restraint has been practiced since the mid-1990s. Both widespread privatization and the recent favorable international economy have helped Brazil grow around 4 percent or 5 percent a year, at least until the current crisis.

“Brazil is a stable economy because for 15 or 16 years, we have had the same economic policy,” says Rubens Barbosa, a former Brazilian ambassador in London (1994-1999) and Washington (1999-2004). “We managed to curb inflation and organize the country’s finances. Public expenditure is more or less under control; the public deficit is under control.”

Most state banks, formerly treated as cash cows by many governors, have been closed or privatized. In 2000, Congress passed a “fiscal responsibility” law banning officeholders from spending what they don’t have and threatening prison terms for those bold enough to try. A long-awaited and much-needed national tax reform has yet to materialize, but piecemeal improvements and great progress in tax collection have been made. Most people now file their annual returns on the Internet, while interactive online invoicing between companies helps curb cheating in high-tax sectors like fuel, tobacco, and liquor. São Paulo municipality, the heart of the country’s services sector, has been a pioneer in using IT to clean up local tax collection: More than 95,000 companies now use verified online billing.

With the mainstream parties now generally accepting serious government and responsible fiscal management, the private sector has been gaining confidence: In April 2008, Standard & Poor’s promoted Brazil’s sovereign debt to investment grade, a historic step for a country that has in the past been engulfed in various international crises.

“Investment grade was a plus for Brazil,” says Barbosa. “The country’s [sovereign risk] rate is low and continues to be low, so investment grade didn’t change much as far as we are concerned, but it did give an additional responsibility to the decision-makers in the economy because we have to keep the standard and continue to be seen as a great country for investment.”

In fact, multinational companies have been pouring money into Brazil, at least until the current crisis. Foreign direct investment (FDI) was on track for an annual record of some US\$40 billion in 2008, up more than 10 percent from



São Paulo Municipal Market

Don’t miss São Paulo’s beautifully restored Municipal Market: more than 300 stalls selling top-quality fruit and vegetables, meat, sausages, seafood, cheese, wine, chocolate, and spices from all over the country—a great way to appreciate Brazil’s kaleidoscope culture. The mezzanine food plaza has Arab, Italian, Japanese, and Brazilian dishes. If nothing else, sample a codfish pastel, made on the spot. Hours: Monday – Saturday, 7:00 a.m. – 6:00 p.m.; Sunday, 7:00 a.m. – 1:00 p.m.; São Bento Metro Station.



2007. FDI is expected to fall during 2009, a disappointing development considering that the overall national investment rate has been too low for too long, crawling along between 15.3 percent and 17.5 percent during the last decade; the rate picked up to more than 20 percent in the third quarter of 2008, just before the crisis hit. Most economists would like to see it well over 21 percent to ensure the long-term economic growth of 6 percent or more that would help Brazil catch up with the other BRIC na-

tions (Russia, India, and China). Nevertheless, an FDI slowdown would not necessarily spell disaster: Much long-term industrial and infrastructure financing comes via the federal government’s Brazilian Development Bank, and President Luiz Inácio Lula da Silva has promised to protect it from any budget cuts.

A better life

The recent good years of plentiful jobs, a significant hike in the minimum wage, and major

expansion of income-supplement programs for the poor have helped chip away at Brazil’s historic inequality, although it remains the highest of any major country. Lower interest rates have boosted middle-class ability to buy houses and durable goods, while more low-income students are going to universities thanks to affirmative-action programs, which have been a hallmark of Lula’s government. All in all, society is heading in the right direction, albeit more slowly than many would like.

Introduction



Crafts and Antiques Fair in Praça Benedito Calixto

Street fair for the young and hip—but others are welcome! Lots of stalls and street vendors, some great stuff, some rather questionable. Interesting neighborhood shops, too. Fair is Saturday only, 9 a.m. to 7 p.m., more or less. Usually traditional *chorinho* and live music in the afternoon, as well as regional Brazilian foods. The Pinheiros/Vila Madalena region is home to numerous trendy bars and restaurants. Metro to Clinicas then an eight-block walk down Rua Teodoro Sampaio, or take a cab to Praça Benedito Calixto.

Nowhere is progress more visible than in São Paulo, a Wyoming-sized state that enjoys economic and political clout within Brazil similar to that of California in the United States. São Paulo is home to 22 percent of Brazil's population but generates 31 percent of GDP and 68 percent of financial operations. Rio de Janeiro will always be sexier—a seaside jewel that pulses to the beat of Carnival and the sway of skimpy bikinis on Copacabana and Ipanema beaches. And Rio used to be more powerful; it was the federal capital until Brasília was built in 1960. But São Paulo, now home to 19 million people in its metro area, started eclipsing Rio in the late 19th century as millionaire coffee planters financed early industrialization. By the 1950s, São Paulo City, the homonymous, massive state capital, had become Brazil's largest urban center, powered by sprawling factories. But it was depressing, pell-mell development—thousands of dreary concrete apartment blocks under an acrid brown blanket of filthy air that could leave locals crying in the streets during the dry winter months. As the saying went, “São Paulo is for making money; Rio is for spending it.” Today, São Paulo is still for making money, but in high-tech, 21st-century ways, and it has also become a far better place to live.

Decades ago, the São Paulo metropolitan region housed the greatest concentration of industry in Brazil. Some factories remain, but since the early 1990s, massive restructuring has spawned modern industrial hubs almost nationwide. Ford and GM, both in São Paulo since the 1920s, built new assembly lines in the northeast and far south, respectively. Newcomers also broke with tradition: Mitsubishi went inland to Goiás State, where its 4x4 SUVs are popular with prosperous farmers, while Honda and Toyota chose upstate São Paulo near high-tech leaders like IBM. São Paulo Deputy Gov. Alberto Goldman, who also serves as development secretary, explains, “We [the state government] are making major investments in the area of technical and technological education. One major concern is technological innovation linking universities and the private sector. The vocation of São



Paulo State is more advanced industry that adds greater value.”

As heavy industry moves out of the São Paulo metro area, mirror-glass office blocks move in, full of multinational companies. Rio remains home to many energy, mining, and telecommunications companies, but most of the other major foreign players choose São Paulo. Thirteen of the 20 largest banks operating in Brazil have their headquarters in or around the

city; entire neighborhoods are redeveloping, and the city is being reborn as the new services center of South America: A major Caterpillar tractor plant has become a major shopping mall; a Victorian railroad station now houses a world-class concert hall.

Even São Paulo air is cleaner. Virtually all new cars are flex-fuel, running on any mix of gasoline and sugarcane ethanol; in March 2008, Brazil became the world's first country

where national ethanol consumption surpassed that of gasoline in automobiles and light vehicles. The quest for biofuel started three decades ago. Initially, the aim was to reduce costly oil imports, but now Brazil is self-sufficient in petroleum and could soon be an exporter thanks to huge offshore discoveries. As a result, the incentives for biofuels have become environmental and economic. Sugarcane ethanol is transforming upstate São Paulo from low-intensity

ranching to large-scale, sugar-based agribusiness.

Does the current economic crisis threaten this progress? Probably not. The economic fundamentals are solid, there's no real estate bubble, and personal debt is low. Expect a slowdown but no catastrophe. And as the world recovers, Brazil will bounce back—above all, because Brazil produces what the world needs, much of it in São Paulo. ■

Spotlight

SPOTLIGHT ON SÃO PAULO

SOCIAL CHALLENGES

Gilberto Kassab, a 48-year-old economist and civil engineer, runs one of the world's biggest cities. Formerly a lightweight deputy mayor, he inherited the top spot in 2006, when veteran politician José Serra resigned to become governor. Kassab won reelection in his own right in 2008, coming from behind to defeat two major national figures. Voters approved his businesslike administration and radical city cleanup, including a total billboard ban.

They also apparently approved his decision to continue building the modern Unified Educational Centers (CEU)—which combine preschool with basic and community education. The

CEUs were started by a previous mayor, and political rival, but Serra and Kassab broke with tradition and maintained an opposition program that was producing good results. "City finances



01

are healthy without any tax increase," Kassab notes, crediting improved collection methods. "This means we have money for investment, particularly in the social area: building schools and hospitals and improving health care."

Kassab is responsible for São Paulo municipality, home to some 11 million of the 19 million people in the metropolitan region. "We have major social needs," he explains. "We have

2.2 million children in the public school system, and some 7 million people lack private health insurance and depend on the public system, so 51 percent of our budget goes to these two areas." Three million people live in substandard housing.

Faced with such challenges, Kassab says, a mayor must work for long-term change: "We can't manage the city properly if we always have one eye on the next election."



02

A nation within a nation

	Brazil	São Paulo State
Inhabitants Million - 2006	186	41
GDP - PPP* US\$ billion - 2006	1,881	640
GDP - Nominal US\$ billion - 2006	1,067	363
GDP PPP Per Capita - US\$ 2005/2006	10,073	15,610
Area (Thousand Km²)	8,547	248
GDP Growth (2005/2006)	3.1%	3.8%

Source: International Monetary Fund / World Bank - 2006 and Seade 2005



Brazil



São Paulo State



03



04

THE BIG APPLE OF HIS EYE

Think Brazil with a taste of Italy. Think luxurious marble and mahogany, or handmade brick imported from England. Finally, think New York, three years from now.

For over a quarter of a century, Fasano's has been a top São Paulo restaurant. Some say the top. It's the latest in a long line of Fasano restaurants in the city, dating back to a brasserie opened in 1902. Today, the various descendants of immigrant Vittorio Fasano have a small empire of very high-quality restaurants and hotels in São Paulo, Rio de Janeiro, and soon the fashionable Punta del Este resort in Uruguay. The one in São Paulo has a warm orange brick frontage leading to a lobby of antique leather armchairs. There's also a 21st-floor pool with loungers and a memorable city view.

"What makes these hotels fun and nice ... is that you don't look to one kind of client. You have here

bankers, artists, young people, very old people, very traditional people, very crazy people, people who drink in the lobby," explains Rogério Fasano, grandson of the founder.

The biggest step will be New York. It will be a small hotel and restaurant, one where the owner's eye ensures the difference. "Brazilian, but very Italian and low profile," he says.



05

- 01. São Paulo: a forest of concrete. The whole is a pulsating global center with a 24-7 lifestyle.
- 02. One of the world's largest helicopter fleets helps executives dodge the traffic.
- 03. Parks aren't exactly plentiful — the Ipiranga Museum commemorating Brazil's 1822 independence from Portugal offers welcome greenery — but many streets are tree-lined.
- 04. Fasano Hotel.
- 05. Rogério Fasano.



Energy

LEAN, GREEN, AND NOT MEAN

Leading the World in Clean Energy

As the world seeks to move toward the more efficient use of cleaner, renewable energy, with lower emission of greenhouse gases, few countries are better placed than Brazil. The World Resources Institute's CAIT database ranks Brazil fifth in absolute terms as a global emitter of greenhouse gases. However, Brazil has the world's fifth-biggest population. In per capita terms, it ranks 33rd as a carbon emitter and falls to just 79th after excluding deforestation, which authorities and private companies are fighting with tough controls and innovative programs (see page 12).



It contains 4 percent water to boost ignition) for cars with specially prepared engines; and mixing ethanol into "ordinary" gasoline, making what elsewhere might be called E-25.

Gas stations throughout the country received ethanol-only pumps, and by the late 1980s, some 4 million cars and light trucks—one third of the national fleet—ran on "pure" ethanol. But fuel production lagged behind demand, world petroleum prices fell, and lines of irate drivers at empty pumps seemed to sound the death knell of the "pure" ethanol program, although E-25 remained a success. Then, in 2003 came the flex-fuel engine, which accepts any mixture of E-25 and "pure" hydrated ethanol. Today, about 90 percent of cars sold have flex-fuel engines.

Brazil has joined the United States to try and standardize ethanol as a world commodity, and to promote its production in dozens of poor tropical nations. Marcos Jank, president of the Brazilian Sugarcane Industry Association (UNICA), says he sees countries like Mozambique and Nicaragua as prime candidates to grow more sugarcane, produce ethanol, and generate bioelectricity, maybe even becoming energy



Marcos Jank
President of UNICA

From Tradition to Trail-Blazer

Sugar was brought to Brazil by 16th century Portuguese sailors and is one of Brazil's oldest economic activities, initially associated with slavery and later with a traditional, autocratic rural way of life. Change gathered pace with ethanol, and as this became a global biofuel the sector has become acutely aware of the need for environmental and social responsibility. UNICA, the Sugarcane Industry Association, has just published its first sustainability report using Global Reporting Initiative (GRI) guidelines.

exporters to the first world: "We're not suggesting that a country that is today extremely dependent on imported oil should become extremely dependent on Brazilian ethanol. We see Brazilian ethanol as a complement to a national policy of substitution of oil and the reduction of greenhouse gas emissions." ■

POINT OF VIEW



Why Sugarcane Ethanol?

LOWER GHG EMISSIONS

When used as a substitute for gasoline, Brazilian sugarcane ethanol offers the best whole-life-cycle ("well-to-wheel") reduction in greenhouse gas emissions: more than 80 percent, compared with around 20 percent for corn-based ethanol. Both calculations assume raw material is produced on existing farmland.

MORE FUEL PER HECTARE

Brazilian sugarcane plantations currently yield an average of 6,800 liters of ethanol per hectare, compared with 5,500 liters for European beetroot and roughly 3,100 liters for U.S. corn.

LESS FERTILIZER

Sugarcane in Brazil requires on average 0.46 tons of chemical fertilizer per hectare, thanks to the use of organic fertilizers including vinasse, a liquid residue of sugar and ethanol production sprayed onto the plantation.

NATURAL PROTECTION

Biological pest control has reduced the use of chemical herbicides and pesticides.

LOW WATER CONSUMPTION

Ample, dependable rainfall virtually eliminates the need for irrigation in the main sugarcane areas. Water consumption in sugar mills and ethanol distilleries has fallen from roughly 15 m³ per ton of cane 30 years ago to 1.8 m³ per ton in 2005.

NO IMPACT ON FOOD PRODUCTION

At the end of the 2007-2008 harvest year, sugarcane occupied 7.8 million hectares (19.3 million acres), representing 2.3 percent of all Brazil's arable land. Cane for ethanol takes up just 1 percent of Brazil's arable land.

IMPACT ON THE AMAZON

It is common to hear people say that Brazilian ethanol farmers are chopping down the Amazon. In fact, most sugarcane is grown in São Paulo State and neighboring regions, more than 2,000 kilometers from the Amazon. In most of the Amazon, the climate—principally the rainfall cycle—is not favorable for sugarcane. Most of the recent expansion has taken place by incorporating degraded land or underused pastureland in and around São Paulo State.

Why Not Corn Ethanol?

MORE EXPENSIVE

U.S. corn ethanol is much more expensive to produce. It receives substantial government subsidies and is protected against Brazilian ethanol imports by a tariff of US\$0.54 per gallon.

WORSE ENERGY BALANCE

U.S. corn ethanol yields just 1.4 units of renewable energy for every one unit of fossil fuel consumed in its production, which includes farming, transportation, and processing. This is the worst ratio of all major ethanol raw materials: Wheat and beet yield roughly 2.0 units, while Brazilian sugarcane ethanol yields a whopping 9.3 units. All yields could improve with ongoing research.

IMPACT ON THE AMAZON

Curiously, while Brazilian sugarcane ethanol production has little or no direct or even indirect impact on the Amazon, some scientists see a connection between the U.S. corn-ethanol program and tree-felling in the rain forest. The link? Increased corn prices lead U.S. farmers to switch from soy to corn, thus pushing up the international price for soy, of which Brazil is the world's second biggest producer. Soy farmers in Brazil expand onto ranching land, and ranchers cut down the forest for more pasture.

REDUCES FOOD PRODUCTION

Many experts blame the U.S. corn-ethanol program for diverting production from food to energy, thereby sparking the world's first "biofuel food riots" in Mexico in early 2007; according to the BBC, the price of tortillas rose by more than 400 percent.

Sources: 2008 Sustainability Report of UNICA (Brazilian Sugarcane Industry Association) using data from WWI, IEA; and others; Climate Progress (citing William F. Laurance of the Smithsonian Tropical Research Institute).

Ethanol

Future Energy

A GREENER FUTURE?

Visit Brazil today, and you'll find a country with an energy matrix very different from the rest of the world. Most electric power comes from giant hydro dams, and ethanol has overtaken gasoline as the main fuel for light vehicles. But what would you see if you visited again, in, say, 2020, by when European leaders hope to derive 20 percent of their total energy mix from renewable sources? Will Brazil be covered in wind farms, electric cars, and solar panels? Probably not.

Two points are important. First, Brazil's total energy matrix is already 46 percent renewable—more than double the EU target. Second,



Brazil's future lies in a different direction from Europe or the United States. There will be some wind power—the government is guaranteeing the purchase of 1,100 megawatts from new wind farms—but that's just 1 percent of projected national generating capacity in 2010.

"Brazil has lots of rivers and has developed a huge industry based on building hydroelectric stations, so there aren't the incentives for wind generation," explains Antônio Pita de Abreu, president of Energias do Brasil (EDB), the local subsidiary of Energias de Portugal (EDP), one of Europe's leading wind-farm operators. "Wind and hydro complement each other, because you can have power from rain without wind, or from wind without rain."

Brazil may downplay wind power, but it doesn't ignore other renewables. Government planning calls for adding some 44,000 megawatts of new capacity through 2017, of which 28,900 megawatts will be hydro. Some of this will come from huge dams in the Amazon, controversial because forest is flooded. Many reservoirs on the Madeira and Xingu rivers have been scaled back to lessen the impact, meaning the dams will produce less power in the dry season.

This has led planners to include 15,300 megawatts of new thermal capacity through 2017, 89 percent of it from oil and natural gas. There's potential to produce close to that amount renewably, from sugarcane residue, but the technology is still being developed (see next story).

Another interesting source of renewable energy is biodiesel. Since early 2008, all diesel must contain 3 percent biodiesel, reaching 5 percent by 2013. The program is part energy, part social, because the government will give long-term contracts to thousands of

poor farmers to supply raw materials like castor seeds, dendê nuts, sunflower seeds, peanuts, jatropha curcas, and other crops. "We're encouraging farmers to intersperse their crops, planting one for oil together with one for food," notes Alan Kardec, president of Petrobras Biocombustível, a new subsidiary the oil giant formed to stimulate production, consumption, and export of biofuels.

"Biofuel isn't the total solution to environmental problems, but it's an important part," says Kardec. ■

Deep and Salty

Brazil is emphasizing biofuels, but it hasn't given up on petroleum. Recently, Petrobras discovered huge new fields—the world's biggest strike since Kazakhstan in 2000—some 7 kilometers below sea level off the São Paulo and Rio coast. It is called "subsalt" petroleum because it lies beneath a treacherous subterranean layer of soft, gooey salt some 2,000 meters thick.

Getting the oil out will demand new robotic technologies and huge new platforms. That's where companies like São Paulo-based UTC come in: "We're mainly focused on offshore because the investments today in oil and gas are very big," says UTC President Ricardo Ribeiro Pessôa. Some analysts expect that falling crude prices might slow the massive investments required, but the government says development will continue.

RESEARCHING FOR TOMORROW

Brazil has spent the last 30-odd years steadily developing its world-leading fuel ethanol program. Now, it's in a race to make the leap to second-generation ethanol—or risk seeing other countries pull ahead.



"Second generation" means producing ethanol not just from sugarcane juice, like Brazil does today, but also from the rest of the plant. The rewards could be huge—sugarcane contains three, roughly equal potential energy sources: the juice, the crushed cane residue known as bagasse, and the leaves and stalk tips. Making ethanol from juice is pretty easy: Crush the cane, then ferment and distill the juice. But prying second generation from the fibrous parts—technically known as "lignocellulosic biomass"—requires

complex chemical processes. In the United States, the challenge is to make second-generation ethanol out of wood chips and switchgrass, and the U.S. Department of Energy is helping build six experimental cellulosic ethanol refineries for some US\$1.2 billion.

"Whoever dominates hydrolysis to make cellulosic ethanol will lead the field," says Prof. José Tadeu Jorge, president of the State University of Campinas (Unicamp), one of Brazil's technology leaders. Unicamp is directing substantial resources to ethanol research, Jorge notes. "In my view, Brazil can easily use its great agricultural potential to resolve the two most important questions facing the world today, food and energy, without any environmental downside."

Unicamp is Brazil's leading generator of patents, with more than 500 pending in all fields and over 50 licensed for commercial use. Interestingly, the second place goes to Petrobras, whose Cenpes Research Center in Rio de Janeiro is a world leader in deepwater petroleum technology and is now working with Unicamp and other universities on biodiesel and second-generation ethanol.

"Technically speaking, we already know how to make second-generation ethanol from

José Tadeu Jorge
President of Unicamp



sugarcane, but the big challenge is to make it economically," says Alan Kardec of Petrobras Biocombustível, noting the process could increase ethanol yield by 60 percent without any increase in planted area.

Another force driving research in São Paulo is Fapesp, a public foundation that by law receives 1 percent of the annual state budget. That gave it US\$350 million in 2008 for a slew of projects, including second-generation ethanol. "We are also working to create an industry that uses ethanol by transforming it into plastic products, to substitute petroleum-based plastics," explains São Paulo Deputy Gov. Alberto Goldman.

Until second-generation ethanol becomes a reality, the ethanol sector hopes to make better use of the bagasse and straw, some of which is burned in cogeneration plants to produce steam and power. Currently, the mills sell around 1,800 megawatt-average of bioelectricity, over and above their internal consumption. Switching to high-pressure, high-efficiency boilers and eliminating pre harvest straw-burning could increase this to as much as 11,500 megawatt-average, the industry says. ■

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Environment

THREE WAYS TO MAKE LIFE BETTER

Any discussion of environmental and social problems in Brazil must begin with the obvious: The Amazon is huge, the cities are huge, and poverty remains a serious problem. Just about everything stems from these basics.



How big is the Amazon? ARES, the Institute for Responsible Agribusiness, estimates that the forest in Brazil (ignoring the parts in Peru, Colombia, Venezuela, and the Guianas) today covers about 298 million hectares. That's three-quarters the size of the European Union, or almost as big as India. From the air, it can seem unending; a magical green carpet broken by mysterious silver slivers. But fly a different route, particularly in the southwest in the burning season, and fires stretch out to the horizon.

ARES says that 19 percent of the forest has been burned already, while Brazil's National Institute for Space Research calculates annual deforestation at 12,000 to 25,000 square kilometers, or roughly 0.4 percent to 0.8 percent each year. The government promises a clamp-down, but it's difficult: The reasons behind deforestation are complex and manifold. Some parts are doomed because the land is good for

farming. But often, it comes back to poverty. About 20 million people live in the region. Most are in big cities, but millions live in or next to the forest and are desperately poor. If they have no better option, they hack down a few trees and plant cassava.

"The biggest challenge, not just for Brazil but also for the international community, is to discover practical ways to preserve the Amazon, ways that make economic sense," says businessman Sergio Amoroso. He is in a unique position to speak. Half his time he dedicates to the Orsa Group, a major paper, pulp, and packaging company he built from scratch. The other half goes to the Orsa Foundation,



which plows back 1 percent of the group's gross billings—not profits—into communities where it operates.

One such community is around Jari, in the eastern Amazon, where Orsa produces 400,000 tons a year of eucalyptus pulp and some 50,000 m³ of prime Amazonian hardwood—all of it sustainably, with international certification from the Forest Stewardship Council (FSC). But Amoroso—who brought Jari out of bankruptcy in 2000—has discovered that operating sustainably, treating his workers well, and running health and education programs for the community isn't enough to save the forest, because all around him are thousands of poor people.



"The international community is to discover ways to preserve the Amazon, ways that make economic sense."
Sergio Amoroso
President of Orsa Group



"We currently treat 70 percent of sewage, but we plan on getting to 84 percent by the end of 2010."
Gesner Oliveira
President of Sabesp



"Companies are organizations made up of people who exist to serve people."
Antônio Pita de Abreu
President of EDB

So, his battle is to find ways to provide them with income; not charity, but income. He has various programs, the boldest of which is a US\$1 billion project for sustainable forestry. Right now, Orsa has around 500,000 hectares of its own forest under FSC-certified sustainable management; Amoroso wants to multiply that tenfold, in partnership with local communities that would protect their own areas and harvest wood sustainably.

Some 2,700 kilometers south of Jari, Gesner Oliveira has the almost impossible task of providing clean water and sewage disposal to 20 million people in greater São Paulo and several million more throughout the state. A leading economist with a Ph.D. from the University of California–Berkeley, Oliveira runs the Sabesp sanitation company, which is government-controlled but has shares traded in São Paulo and New York. He's managed to double his investment budget to \$6 billion reais for 2007-2010, but he recognizes that more is needed from private investors.

"We currently treat 70 percent of sewage, but we plan on getting to 84 percent by the end of 2010," he says.

Brazil has huge needs in water and sewage. Public investment is never enough, and planners have wrestled for years with how to bring in private capital. Concessions were studied, but many of the communities where the need is greatest have the poorest populations and are thus least able to pay market rates to cover private investments.

Sabesp's main market, sprawling greater São Paulo, mixes expensive high-rises with swaths of slums, albeit more of the latter. This means price-conscious consumers who are also voters. Nevertheless, Oliveira manages to crank out a profit, thanks to cost savings and creative schemes like a \$300 million real public-private partnership that supplies 5 m³/second of water—some 7 percent of company requirements. The company has also developed low-cost remote operation systems for smaller treatment stations that it is now seeking to market to smaller cities. ■



Letters of Light

Many companies in Brazil have programs to help attack social problems. One of the most creative is run by EDB, the Brazilian subsidiary of Portuguese energy company EDP. The program combines good environmental and social practices. The company focuses on clean energy generation in Brazil, where it has 1,700 megawatts of capacity, mainly hydro, but with some wind power. It generates carbon credits for polluters in Europe using the Kyoto Protocol's Clean Development Mechanism. It then uses the proceeds to finance an institute that runs social programs in the five states where EDB has operations. One, called "Letras de Luz"—"Letters of Light"—helps promote childhood literacy.

"Companies are organizations made up of people who exist to serve people," explains EDB President Antônio Pita de Abreu.

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Finance

THE BLESSINGS OF STABILITY



How will Brazil ride out the current international economic crisis? Not too badly, says Central Bank President Henrique Meirelles, thanks mainly to the sensible economic and financial policies of the last several years. “There are various reasons to think that the slowdown in Brazil will be shorter and less severe than in other countries,” he explains, listing fiscal responsibility, the free-floating exchange rate, and the use of inflation-targeting as the “three strong legs supporting macroeconomic policy.”

In previous moments of international financial turbulence, Brazil has been one of the first countries to wobble. Among the vulnerabilities were paltry foreign reserves and a chronic dependence on foreign capital. Today, things look much better. The country has accumulated more than US\$200 billion in reserves and

is a net international creditor. This means that even though the exchange rate took a hit in late 2008, slipping some 40 percent against the dollar, the public debt fell as a percentage of GDP. “This is a radical change from past times,” Meirelles says.

Brazil also arranged a first-ever US\$30 billion no-strings, short-term currency swap with the U.S. Federal Reserve, as did Singapore, Mexico, and South Korea. Meirelles calls this “recognition of the systemic importance of Brazil for the world economy.”

Another reason Brazil should ride out the storm relatively well is that the local banking sector is well capitalized and not exposed to the kinds of problems that crippled the United States. There was no subprime lending, and Brazilians in general use much less credit than their first-world counterparts, although car sales initially slumped on higher interest rates and shorter repayment terms. The credit crisis did impact the country’s foreign trade, some sectors of which were also suffering from falling demand and lower prices, but the government-run Brazilian Development Bank expanded its export financing to mitigate the problem.

The government was quick to pump almost 100 billion reais into the economy by reducing retail banks’ required reserves with the Central Bank and took pains to stress that basic economic policy would not change; neither would plans for significant public investments in infrastructure in 2009 and beyond.

Market expectation of economic growth, tracked by the Central Bank, was for a reasonable 2.4 percent in 2009, down from an expected 5.6 percent in 2008. Not brilliant, but also not the recession looming in much of the developed world. ■

Man in the Eye of the Storm

Henrique Meirelles, a former world president of BankBoston, has presided over Brazil’s Central Bank with substantial autonomy since President Luiz Inácio Lula da Silva took office at the start of 2003. Many in Lula’s leftist Workers’ Party initially saw Meirelles’ conservative monetary policies as controversial, but more recently, he has been widely credited with helping lay the groundwork for Brazil’s strong growth.



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→ BANKERS’ VERDICT

Banco do Brasil is a state-owned bank; Banco Itaú is private. As of mid-2008, Banco do Brasil was the country’s largest, with total assets of \$403 billion reais, while Itaú was third, behind Bradesco with \$340 billion. Since then, Itaú announced a merger with fifth-placed Unibanco, and the new superbank will have potential total assets of \$573 billion reais, easily grabbing first place. Banco do Brasil responded by buying Nossa Caixa and 49.99 percent of Banco Votorantim but is still second to Itaú-Unibanco by some \$20 billion reais. Both banks are intimately involved in Brazil’s economic and social development.



Luiz Oswaldo S.M. de Souza

VP for Personnel Management and Socioenvironmental Responsibility

Banco do Brasil

On sustainable development:

“We created a strategy in 2003 called DRS—Sustainable Regional Development. It’s not just another credit line, and it’s certainly not charity; it’s a loan that must be repaid.”

How it works:

“The bank offers this financing if the client is part of a sustainable-development supply chain. ... We study the supply chain, for example, from the field through production to marketing. But we also look at value added and training. ... In Piauí, bean productivity was 100 kilos per hectare, but with training, technical assistance, new seeds, and organizational help from the bank, this jumped to 600 kilos per hectare. ... In a very poor region of Paraíba, 38 women started planting flowers. It went well, and they bought 8 hectares to expand. Many husbands were against it; they were just used to poverty and drinking.”



Roberto Setúbal

Chief Executive Officer

Banco Itaú

On the crisis and Itaú’s market position:

“I think that at the right moment, Brazilian banks will have opportunities in the future, and we’ll have to keep an eye on them. ... We are clearly the No. 1 private bank among high-net-worth individuals, but we are very strong elsewhere as well.”

On the dynamism of small companies:

“In the past, given the volatility of the economy, small companies suffered a lot. Nowadays, the economy is much more stable and sustainable. It’s clearly a place where you see a lot of entrepreneurship going on. In the credit market, for instance, the share of small companies is increasing considerably. This is creating a very good environment for them to develop. ... We believe that the market for small companies is increasing and will be increasing more in the coming years. We will continue to support this segment a lot.”





HEALTH

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