

Diversifying Rio's economy

INTERVIEW WITH JULIO BUENO

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JULIO BUENO graduated with a degree in metallurgical engineering from the Federal University of Rio de Janeiro and holds a Master's degree from the University of Birmingham (UK). He began his career at Petrobras before becoming President of Inmetro, the National Institute of Metrology, Standardisation and Industrial Quality, and later President of the Agency for the Development of Energy Resources of the State of Espiritu Santo. He was appointed Secretary for Economic Development and Tourism for the State of Espiritu Santo in 2003 before assuming his current role in 2007.

What message will you be conveying to international business leaders during Governor Sergio Cabral's forthcoming visits to France, Germany and the UK this summer?

The same message that we have been taking to Japan, Korea, China and elsewhere over the past few months, which is that the State of Rio de Janeiro currently has the best environment for doing business in Brazil and, I would say, one of the best anywhere in the world.

Why do I say this? Because Rio is currently riding a massive wave of public and private sector investment worth almost US\$51 billion over the next three years, and this will create significant opportunities for international investors, operators and suppliers in a number of industrial sectors.

The most significant of these are in the steel, oil and gas, infrastructure and tourism sectors, but Rio also offers major opportunities in such areas as forestry, paper and pulp, marble and granite, shipbuilding, reinsurance and asset management, among others, so there really is something for everyone here.

The economy of Rio is highly diversified and generates the second-largest state GDP in the whole of Brazil – US\$14.2 billion in 2006 – which, to give you some perspective, is higher than that of Chile, Colombia or Peru. Our GDP per capita is the highest in Brazil, which also makes it the highest in the whole of South America.

There are 21,000 companies registered in the State of Rio de Janeiro and the five largest Brazilian companies have their headquarters here, so that gives us a certain critical mass in terms of attracting service industries to the State. And, of course, the quality of life here is fantastic! Everyone knows that Rio is a great place to party – what we are trying to communicate now is that it is also a great place to work and do business as well.

Which projects and sectors are driving this new wave of investment?

In the steel sector, the two key ones are ThyssenKrupp CSA Siderúgica do Atlântico (CSA), which is a joint venture between ThyssenKrupp of Germany and the Rio-based mining giant, Vale, in the Santa Cruz district of Rio, and the Companhia Siderúgica Nacional (CSN) project in Itaguaí.

The first of these is the largest private investment currently underway in Brazil and will significantly alter the dynamics of the local economy. With a total value of US\$3.4 billion, it will involve the construction of a steel works, a coking plant and a thermoelectric power station,

with a total projected production capacity of 5 million tonnes per year of steel sheets and 1.4 million tonnes per year of coke. The entire steel production of the plant will be exported to Europe and North America. The construction phase is expected to generate 18,000 jobs and the operating stage 3,500 direct jobs and 15 thousand indirect jobs.

The second involves the construction of a steelworks with three blast furnaces in the area of Itaguaí port, at a total cost of US\$3.6 billion, and will have an annual production capacity of 4.5 million tonnes of steel sheets, also primarily for export. We estimate that around 2.5 thousand direct jobs will be created by the project, which is expected to commence operation in 2009.

The biggest of all, however – and, indeed, the largest investment in progress anywhere in Brazil – is the COMPERJ petrochemical complex being built in Itaboraí in the East of the State. The project is being developed by Petrobras, with additional funding and participation from the Ultra Group and BNDES, the Brazilian development bank, and is valued at around US\$8.4 billion, of which US\$2.9 billion is scheduled for the period 2008-10. Occupying a total area of 20 million square metres, the complex will generate 212,000 direct and indirect jobs and will have a major beneficial impact on the economies of both Rio and Brazil. Firstly, because it will attract 'third generation' plastics industries to the area – producing such items as plastic bags, packaging, clingfilm and car bumpers – and secondly because it will increase Brazil's heavy oil refining capacity, thereby reducing the need for imports of by-products such as naphtha and saving the country around US\$2 billion a year in foreign exchange.

Last but not least, we are working with (Brazilian billionaire) Eike Batista on the construction of a new port and industrial complex at the Port of Açú in São João da Barra, Northern Rio. The complex has a 6,000 hectare land area projected to house a steelworks, a thermoelectric power station and up to four iron ore pelletisation plants, as well as oil processing and liquid bulk storage areas. It is part of an even larger project being undertaken by MMX and LLX (the mining and logistics arms, respectively of Batista's EBX conglomerate) to transport iron ore pulp from Alvorada in the State of Minas Gerais along a 525 kilometre pipeline to the Açú Port terminal. The initial phase of the project will cost US\$2.3 billion, although the potential scope of the project could be much larger, as other industries are developed on the site.

Presumably projects of the scale you describe will create certain logistics and human resource challenges, among others. What is the State Government doing to address these?

We are well aware of the potential impacts which you mentioned, which is why the Government of Rio de Janeiro is investing around US\$380 million in what we call the 'Arco Metropolitano' or Metropolitan Ring Road, which will circle the metropolitan region providing easy access to Itaguaí Port from all of Brazil's main highways. It will also connect the two largest ventures in the State, namely CSA and COMPERJ, as well as running through the chemical gas hub in Duque de Caxias, so it's incredibly important in logistical terms. But equally importantly, the Ring Road will present major opportunities for associated industry, trade and logistics centres to be established along the route, so it will be hugely important for the future development of Rio de Janeiro.

In human resource terms, we are fortunate in that the workforce in Rio is among the best-educated in Brazil and we have the biggest science and technology network in the country. In addition, our major companies have highly advanced training and educational facilities – particularly Petrobras, which is training 30,000 professionals to staff the COMPERJ complex alone.

The expansion of Rio's industrial base represented by the projects I mentioned will also place increasing demands on the State's energy supply, which is why the Government is committed to the expansion of the nuclear power facility at Angra dos Reis. Angra 3, as the project is known, will have a gross capacity of 1,350 MW, capable of generating 10.9 million Mwh per year, equal to one-third of the energy consumed by the State. In conjunction with the existing power stations, Angra 1 and Angra 2, it will meet over 80 per cent of the State's electricity needs.

How important is the offshore oil and gas industry to the economic development of Rio de Janeiro, and what impact do you expect the recent Tupi and Jupiter discoveries made by Petrobras and its partners to have on the pace of future development?

It's incredibly important, of course. Petrobras alone will invest around US\$40 billion in Rio de Janeiro over the next three years, added to which a further US\$8 billion will be invested in exploration and production (E&P) by foreign companies such as Shell, Repsol, StatoilHydro and Chevron.

The State of Rio de Janeiro is the largest producer of oil and gas in Brazil, accounting for 85 per cent and 45 per cent of national production, respectively. Although virtually non-existent in 1996, deep-water oil production in the State has grown by an average of 19.6 per cent per year, and now amounts to 1.7 million barrels a day. This ranks Rio de Janeiro among the largest global oil producers, ahead of even OPEC countries such as Algeria and Nigeria.

The billions of dollars generated by the sector have also had a major knock-on effect on other industries in the State. The royalties and shares of extraction revenue have yielded over US\$4.7 billion for local governments in Northern Rio over the past ten years, and the total revenue to the State authorities over the past seven years has been in the region of US\$15 billion, which is a hugely significant contribution to the State finances.

The problem we have is that while the royalties we receive are considerable, the greater revenue take from the oil produced in Rio comes from VAT, a tax that is collected at the point of consumption – which in this case is largely in São Paulo. We are currently looking into ways of reforming the tax system to ensure that Rio receives a fairer share of the proceeds from our non-renewable hydrocarbon resources.

Everybody has got a little overexcited about the potential of the pre-salt discoveries in Tupi and Jupiter, but it is no exaggeration to say that they will transform the oil and gas industry here in Rio for decades to come. And if it turns out that the distribution of hydrocarbons in the pre-salt zone is repeated across the entire geology of Brazil's known oil and gas fields – and I'm not saying it is, but it's a theory – the country could be sitting on as much as 80 billion barrels, which would put us on a par with our Venezuelan neighbours.

Whatever the final figure turns out to be, we believe that we can develop an industry around our oil and gas industry – the engineering services, the supply services and so on – not only for the benefit of Brazil but also for other countries. Aberdeen in Scotland is a good example of how a city with specialist expertise in offshore exploration and production can successfully export that expertise to the world, and we intend to follow their example. **E**



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Petrobras's P-19 oil platform in the Campos Basin, offshore Rio de Janeiro