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THE CURRENT: What do the Amazon fires mean for Brazil's economic future?

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PITA: During the dry season, fires in the Amazon region are common, but this year has seen a dramatic spike in the number of forest fires, prompting public outcry within Brazil and around the world.

With us today to discuss this is Otaviano Canuto, a nonresident senior fellow in our Global Economy and Development Program; a principal with the Center for Macroeconomics and Development; and a senior fellow at the Policy Center for a New South.

Otaviano, one of Brazilian Pres Jair Bolsonaro campaign promises was to roll back environmental regulations on deforestation, which scientists say is a leading cause of the increase in this year's fires. Why has Pres. Bolsonaro been so keen to lift environmental regulations in the Amazon?

CANUTO: It's a pleasure to be here. One has to take into account the following: Bolsonaro was elected mostly as a rejection of traditional politicians in Brazil, that they were all involved in corruption & scandals & so on, and as a reaction to the security fears, the problems through which cities in Brazil have been living through.

Having said that, it's true that he had support from, let's say, people in the Amazon region particularly associated with the illegal land-grabbing and so on. This is something that cannot be denied. But it's important to keep this in perspective, because a recent poll showed clearly that the majority of the Brazilian population is against deforestation. There is no widespread popular basis to what's happening in the region.

The rate of fire detection this year has been the peak since 2010, which was the most recent peak, and they reflect to a large extent, the deforestation. As we should know, most of these fires, they happen either on a smaller scale because of people using the technique of burning as a low-yield way to clear the area for plantation, which in some cases is even legally authorized. These fires sometimes run out of control. But it also happens as a strategy of land-grabbing. You deforest, you take illegally, you log illegally, you acquire the area thinking of ultimately making it a product for sale and so on, sometimes occupying public lands and trying to settle there so as to make it enforceable legally later on. It's clear that the rhetoric by President Bolsonaro most likely empowered, felt some of those empowered to do large-scale activity in that regard. And the rate of deforestation, which precedes the burning for a couple of months, because the burners have to wait for the biomass to settle on the ground, was clearly

detected by the National Institute for Space Research, which has been running a monitoring system by satellites since 2004. Not by chance there was a spat between President Bolsonaro's office and the institute. So there is something fishy going on in the sense that people may have probably felt empowered to go return to the old practice.

The issue is not monitoring; the issue is not simply of rules, because there are rules in Brazil – really, even cumbersome to implement; the issue is more on the control side and the structure of incentives.

PITA: What sort of effect are these fires having on Brazil as a whole?

CANUTO: There are two levels of effects in that regard. Of course, everyone was astonished with the smoke over the city of Sao Paulo and other cities in Brazil, particularly because the density and the features of the smoke revealed that they were coming from a kind of fire that could be associated with deforestation, given the chemical features of the smoke. There is a long-standing concern as well – hopefully we are far from it – on a tipping point after which the system might be compromised and the possibility of the survival of the Amazon might be jeopardized if the rate of deforestation went over a certain limit. I understand we are very far from that.

And the major potential effect of an intensive deforestation of the Amazon would be through the weather seasons and to the water and rain seasons that would be over the area where the bulk of the Brazilian agricultural production happens. There is a huge confusion sometimes – a lot of fake news and misunderstandings – the bulk of the Brazilian agricultural production is not in the Amazon. For instance there has been this prohibition of the production of soy beans in the Amazon for some time, more than a decade. There's no such thing as production of Brazilian exportable agriculture from the Amazon. Today, the ones who would be mostly affected by things happening out of control in the Amazon would be the ones who export, the ones who have been very important for the dynamism of the Brazilian economy over the last few decades.

PITA: On Monday, G7 leaders pledged some \$20 million to Brazil, and Bolivia, Colombia, and other neighboring countries affected by the fires. As of Tuesday morning, President Bolsonaro rejected this funding. What kind of financial resources needed to tackle a significant environmental emergency like this, and is Brazil capable of going it alone?

CANUTO: Look, the \$20 million was more symbolic than anything else. It pays, what, for some planes to help combat the fire? We had the Amazon Fund, which has been halted, with a value of \$1.2 billion to be used partially with the states and part of it with the federal government. The basic idea has always been how to make a sustainable use of the natural resources and people. So part of the resource were to be destined for education, for small-scale activities, and so on. That's the kind of very much helpful assistance with the support of the rest of the world. Because ultimately we have to keep in sight the Brazilian Amazon has 23 million people, 45% of which are below the poverty line. 5 of the 6 poorest states in Brazil are in that region. You have to do something. You cannot simply count on keeping everything physically untouched. You have to allow for some sort of sustainable use of the natural resource, which definitely is not the way by deforesting indiscriminately and burning, but you have to create the conditions for those 23m people, particularly those below the poverty line, to have some sort of productive activity in a sustainable way that can accommodate their basic needs. More than basic needs, they want development.

This has to be incorporated into the support that is given by people from abroad and with engagement. The amount of money necessary for that, it's hard to gauge, but definitely the \$1.2 billion was very much helpful. The use of those resources was relatively well under way for programming for the next few years. It's a pity that everything went the way it did. But we have to keep in mind that things have to be done not only on the financial side, but particularly on the Brazilian side of, as I said, not only command and control but incentives.

Look, there has to be some effort to recognize the need to have some types of sustainable mining. There has to be as well the use of hydroelectric power plants – just to give you an idea, the state of Amazonas, which is a large one, gets 87% of its electricity from 255 thermo [thermoelectric] stations. They consume 181 million gallons of diesel a year, which is mainly shipped by sea from Sao Paulo. So we have to take into account several possibilities of appropriate energy supply so as to allow development without necessarily imposing some sort of necessarily imposing some sort of developmental use of the resources of the region.

Of course, good forest management can be encouraged. There are models, for instance, to extract timber and replace trees. So, it's there, it's a matter of implementation. There are regulations. So, for instance, those with the due title of the land are allowed to deforest – after authorization – up to 20% of their area. The issue is that doing business in Brazil, which is a chapter of the Brazilian, let's say, institutional structure that's not friendly to, really, investment in business. Also, the bad doing business in Brazil also applies to the use of those resources and that of course reinforces the temptation of doing it the wrong way.

So there has to be due attention to sustainable ways of using the resources.

PITA: Do you think – in addition to whatever financial and economic resources to do this – is there enough political will? Is the outcry within Brazil strong enough to lead the government to change course?

CANUTO: I believe so, in the sense that the outcry, not only from the population but through interest groups – look, Brazil is a country that will have the bulk of its future, most likely participation in the global economy, as a natural resource-rich country using science and technology. The Brazilian agriculture, for instance, is very sophisticated technologically, to the same level if not higher to the one here in the US, for instance. And the Brazilian producers know that the reputation matters a lot, because if the Brazilian brand is harmed, that opens the way for not only protectionism pushbacks by competitors – but also because it matters for the consumers to know the origin of the product they're consuming in the rest of the world, that they come from a sustainable base.

So, all in all, Brazil has done fantastic work in terms of cementing a good image of it in the management of natural resources over the last decades. Today, for instance, the contribution of Brazil, the negative contribution of Brazil in terms of CO₂, of carbon, half of it comes from deforestation. Brazil has a very clean energy matrix based on hydroelectric power plants, and now the increasing weight of wind energy, of solar energy, and so on. Brazil has been performing really quite well in terms of branding its sustainability of its natural resource use. Any process like the one we have watched this year runs against it. And everyone else knows how damaging this can be for the whole thing. We are already watching symptoms of this, some kind of opportunistic protectionism reference to the recently agreed Mercosur-European Union agreement. So, the costs for the country as a whole, the damage to

the reputation are huge enough to generate this kind of a reaction inside the country in favor of, as I said, enhancing controls, enhancing punishments. It's a hard task: The Amazon is a continent, and I spoke about the 23 million people. Apart from those who live in big towns, in big cities like Manaus, most of it is dispersed in a long territory. So any enforcement is always full of challenges.

I strongly believe that the events of this year may be, let's say, a break point in terms of enhancing the political support to do the right thing.