

Brazil : a commodity powerhouse on the rise

08/10/2023

Summary

Back at the helm of Brazil since January 2023, twelve years after his last term, Lula has embarked on a major economic and social transformation of the country. The Brazilian president is benefiting from a favourable economic environment. Brazilian growth, recently revised upwards, is expected to reach 3.2% in 2023, while the country's trade surplus is at record levels: it could reach USD 60 bn in 2023.

Against a backdrop of recovering global trade and rising food and oil prices, Brazil's exports will continue to grow. From USD 340.3 bn in 2022, they are expected to reach USD 364.8 bn in 2028. These exports are mainly low value-added goods, such as ores, agricultural products and petroleum products.

As a major agricultural power, Brazil is the world's leading exporter of soybean and corn, with exports of 94 and 54 million tonnes respectively exported in 2022/23. The next harvest is expected to set new records. Although encouraging in the short term, the long-term outlook is more mixed. Brasilia has benefited from a favourable economic climate, and as food prices fall again, Chinese demand wanes and US and Argentine production recovers, Brazilian exports are likely to slow down gradually.

In terms of hydrocarbons, Brazil is set to become a leading oil producer. Thanks to the high productivity of its pre-salt basins, Brasilia is set to become the new oil giant of the Latin American continent. Supported by the Lula administration, Brazil's crude oil production is set to increase by almost one million barrels a day by 2028. With exports set to almost double between 2018 and 2022, Brazilian oil is set to play an increasingly important role in global trade.

Brazil is also a major player in the global minerals trade, thanks to its mining industry. While iron ore exports are declining as a result of the slowing Chinese consumption, the Brazilian authorities intend to take advantage of the growing demand for critical metals to expand their lithium production.

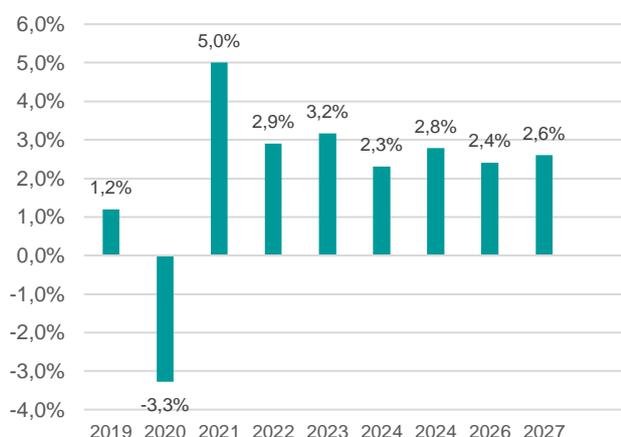
As a result, Brazil is set to play an increasingly important role in international trade. At the same time, the Lula administration is renewing its commitment to multilateralism and is working to put Brazil back on the international stage. Brasilia appears to have one of the greatest development potentials of any emerging markets. The country is poised to play a leading role within the BRICS, capitalising on its many advantages and its exports of primary commodities.

1. The trade balance illustrates the good health of the Brazilian economy

1.1. Brazil's economy grew more than expected this year

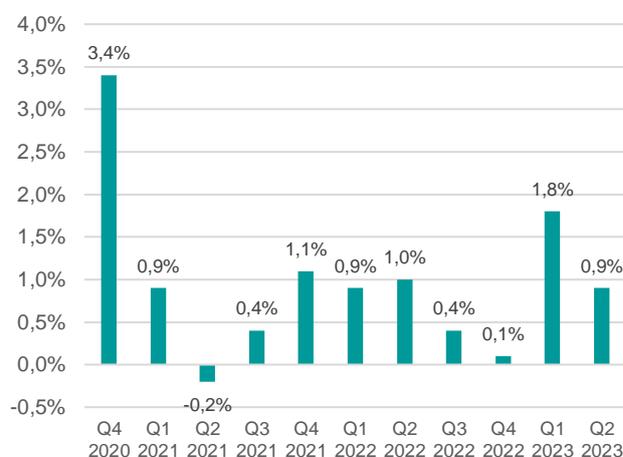
After an increase of 5% in 2021, Brazilian growth has reached 2.9% in 2022. The Brazilian Ministry of Finance has raised its growth forecast for 2023 from 2.5% to 3.2%¹. In the second quarter, the country recorded growth of 0.9% ; although the pace was halved compared to the 1.8% recorded in the first quarter, this result, which was **three times better than expected**, was described as a "good surprise" by the central bank² . For 2024, Brasilia is forecasting growth of 2.3%. The IMF is a little less optimistic, but last July it also predicted robust growth of 2.1% this year.

Figure 1: Annual GDP in Brazil



Source: Brazilian Ministry of Finance

Figure 2: Quarterly GDP growth in Brazil



Source : IBGE

Brazil's resilient economy has been on the up since Lula returned to the Planalto Palace in January 2023. The head of state, whose popularity is soaring³ , sees this as the result of his economic policies and the reinstatement of social programmes (notably the *Bolsa Familia*). This rise in popularity coincides with the rapid fall in inflation, which has allowed households to increase their power: now at 4.6%, inflation has fallen significantly since its peak in April 2022 (12.13%). This decline has also allowed the Central Bank to ease its monetary policy (down 100 basis points since August 2023, to 12.75%). Its key interest rate is set to be cut further in the coming months, to reach 8-9% by then end of 2024 (depending on economic conditions, and in particular inflation expectations). **However, the improvement in the economic situation is also the result of global factors beyond the control of the Lula government, which have allowed the country to revive its foreign trade.**

1.2. A record trade surplus despite rising imports

Brazil's trade surplus is at record levels. In September 2023, it reached an all-time high for that month, at USD 8.9 bn⁴, around twice the level of September in previous years. **According to our estimates, it could reach USD 60 bn for the year as a whole (compared with USD 44 bn last year and an average of around USD 30 bn between 2019 and 2021).** This would be close to 3% of GDP this year, the highest level since

¹ Bloomberg, *Brazil Sees Economy Growing Faster Without Additional Inflation*, September 2023

² RFI, *"O resultado do PIB é uma boa surpresa", diz Campos Neto em fórum do Grupo Lide em Washington*, septembre 2023

³ The Brazilian Report, *Poll shows rise in Lula popularity due to feel-good economic factors*, August 2023

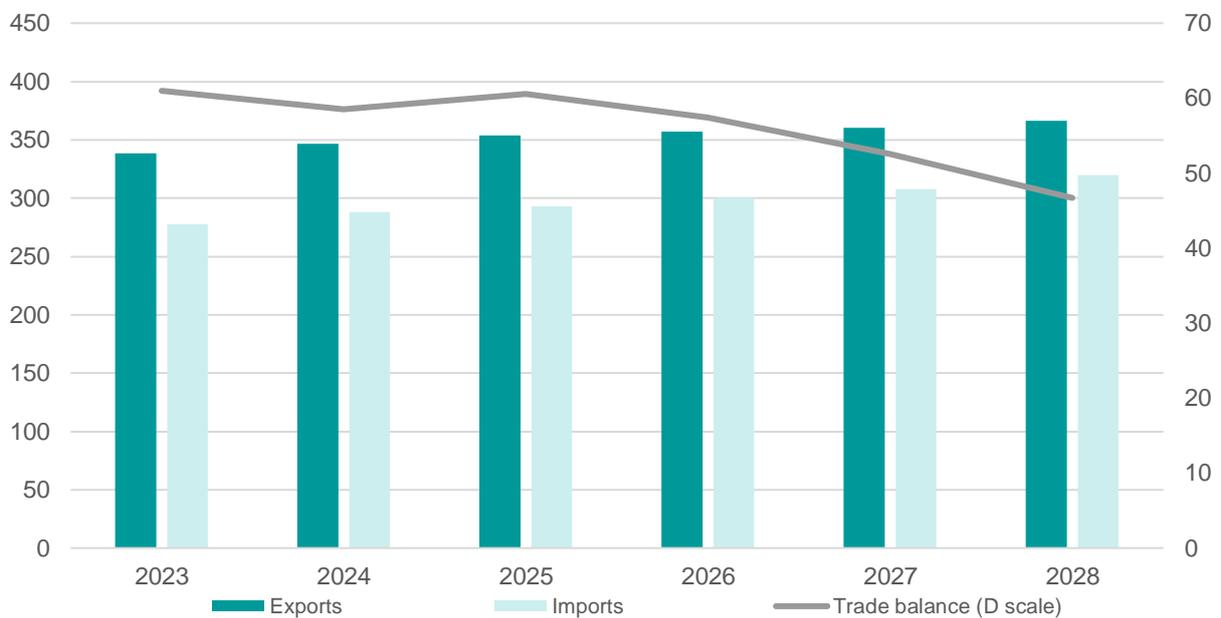
⁴ Reuters, *Brazil September trade surplus hits record but misses expectations*, October 2023

2006 (before gradually declining from 2025 to 2028 despite higher production capacity for certain commodities, under the combined effects of robust domestic demand and lower raw commodity prices).

For 2023, the IMF forecasts a trade balance surplus of **USD 50.1 billion**. According to the Fund, Brazil's exports reached USD 340.3 billion in 2022, up 19.7% from 2021. Although Brasilia has also increased its imports as a result of its economic recovery, **its trade balance remains in surplus**; according to the IIF, the increase in exports has allowed **the underlying trade surplus to rise to 2.2% of Brazilian GDP...** compared with 1% a decade ago⁵.

Brazil's performance can be explained by current trends in international trade: against the backdrop of **a strong recovery in global trade, rising oil and food prices and growing demand for Brazilian products, Brasilia has significantly increased its exports**. We estimate that they will continue to rise, reaching **USD 364.8 bn in 2028**. Brazil's imports are expected to reach USD 328.8 bn by the same date. As a result, the **country's trade balance would reach USD 36 bn by that date**⁶.

Figure 3: Brazil's exports, imports (left axis) and trade balance (right axis) (2023-2028, USD bn)



Source: GSA forecasts

⁵ IIF, *LatAm Views: Brazil's Large Trade Surplus*, July 2023

⁶ GSA estimates

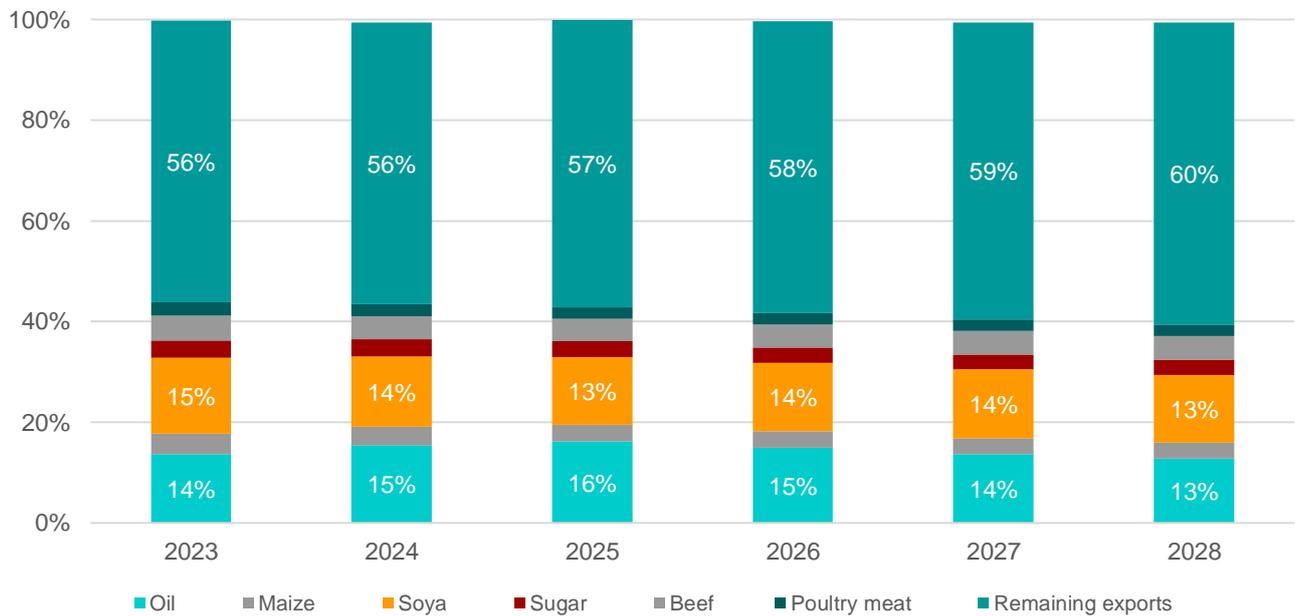
Figure 4: Brazil's trade surplus as a % of GDP (1995-2028)



Sources: IIF, GSA forecasts

Brazilian exports are mainly primary products, especially **ores** (iron ore will account for 8.7% of total exports in 2022), **agricultural products** (13.9% in 2022 for soybean) and **petroleum products** (12.7% in 2022 for crude petroleum oils)⁷. Agricultural and petroleum products alone account for almost half of Brazil's exports.

Figure 5: Changes in the structure of Brazilian exports (2023-2028, in %)



Source: GSA forecasts

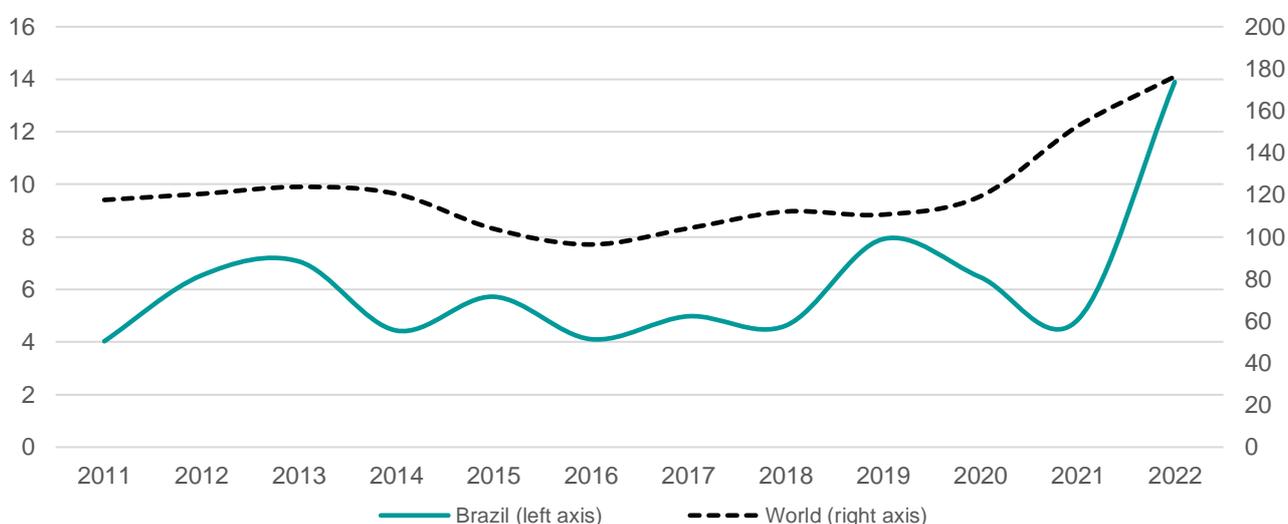
⁷ Direction générale du Trésor, *Brazil's foreign trade*, June 2022

2. Brazil, a global agricultural giant

2.1. Agriculture leads the Brazilian economy

Brazil is the fifth largest country in the world in terms of surface area, with favourable geographical conditions, and is a **major agricultural power**. Arable land covers around 30% of the country's territory, while **agriculture accounts for almost 8% of its GDP⁸**. Together with the agri-food sector, **agriculture accounted for almost a quarter of the Brazilian economy in 2017**, a figure that is on the rise⁹. The boom in the agricultural sector since the 1980s has allowed the country to expand its farms, develop its production and multiply its exports. Brazil is now **the world's third largest exporter of agricultural products** (after the European Union and the United States), with volumes set to increase sixfold between 2000 and 2020, when the country's agricultural exports will reach USD 120 billion¹⁰. In particular, Brazil's cereal exports have increased significantly: **from USD 4 bn in 2011 to USD 13.9 bn in 2022**, representing almost 8% of world cereal exports.

Figure 6: Growth in world and Brazilian cereal exports (2011-2022, USD bn)



Source : TradeMap

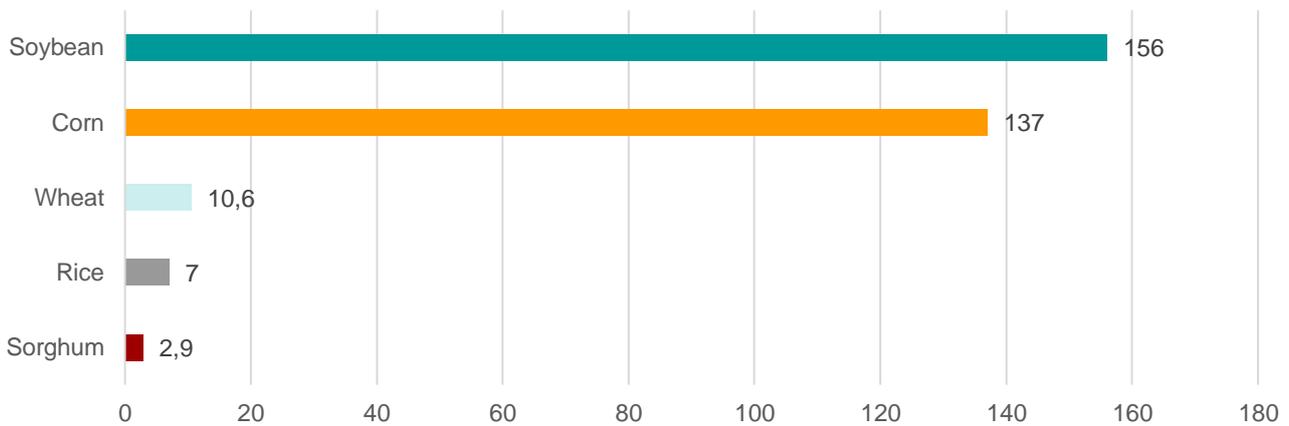
Cereal production in the country has increased significantly in recent decades. A leader in the sugar and coffee sectors, and one of the world's leading producers of poultry and beef, **Brazil is also a major player in the cultivation of cereals and pulses**. These include **soybean** and **corn**, of which **Brazil is the world's number one and number three producer respectively**.

⁸ IBGE, *GDP grows 1.9% in Q1, leveraged by Agriculture*, June 2023

⁹ IRIS, *Brazil: where is the agri-food power going with Bolsonaro*, April 2019

¹⁰ Sébastien Abis, *Géopolitique du blé*, Armand Colin, February 2023

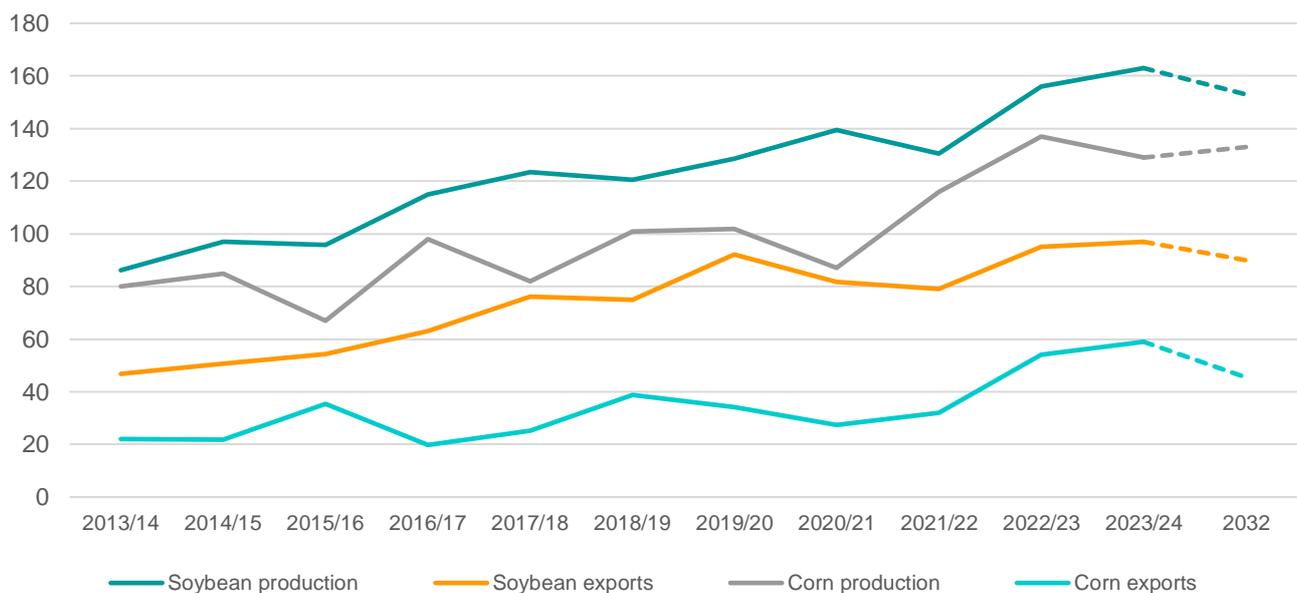
Figure 7: Brazil's main cereal and pulse crops in 2022/23 (in millions of tonnes)



Source : USDA

Over the past decade, the country's production and exports of wheat and soybean have increased. In 2022/23, Brazil produced **156 million tonnes (MT)** of soybean (42% of world production) and **137 MT** of corn (12% of world production). The country is the world's leading exporter of soybean and corn, exporting **94 MT** (46% of world exports) and **54 MT** (30% of world exports) respectively in the same period.

Figure 8: Growth in Brazilian soybean and corn production and exports (million tonnes, 2013/14-2032)



Source: USDA, FAO

2.2. Brazil consolidates its hegemony in soybean

2.2.1 Soybean, a major asset for the Brazilian agricultural sector

Brazil's agricultural power is based first and foremost on soybean, of which **Brasilia is the world's leading producer**. The country's hegemony over this product is a recent development: while the United States still held 75% of the market in the 1960s¹¹, the US embargo on soybean exports, combined with the increase in Brazilian production and the explosion in Chinese demand, has allowed Brasilia to gradually establish itself as

¹¹ Le Monde, *Au Brésil, le soja, source de puissance mondiale et de déstabilisation régionale*, September 2023

the new master of this "green gold". As a result, soybean production has exploded, **rising from 86.2 million tonnes (MT) in 2013/2014 to almost 156 MT in 2022/2023**¹².

At the same time, the area devoted to intensive soybean cultivation is increasing: from 30 million hectares in 2013/2014, it is now at **44 million hectares** (and is expected to reach 45.6 million for the 2023/2024 harvest). Located mainly in the Centre-West region, and particularly in the State of Mato Grosso (26% of the country's production)¹³, soybean production plays a **key role in Brazil's economic development**, despite its undoubted environmental impact. This is evidenced by the drastic increase in Brazilian soybean exports, which are expected to reach nearly USD 61 bn by 2022 - almost a fifth of the country's export earnings¹⁴. **Brazil has been the world's leading soybean exporter since 2013**, when it overtook the United States.

In 2022, soybean accounted for almost 14% of the country's exports. In 2022/2023, **Brasilia exported 94 MT of soybean** (56% of global soybean exports). China, the world's largest buyer of soybean (with a record 102 MT imported in 2022/2023, of which 59% was Brazilian soybean¹⁵), accounts for **almost 80% of Brazilian exports**. The boom in Chinese demand, which quintupled between 2000 and 2010 before gradually levelling off, has therefore played a key role in the development of Brazilian production. In 2022, Brasilia had a trade surplus of more than USD 43 billion with Beijing, its leading trading partner.

The rise in Chinese imports, coupled with growing demand in Asia and the Middle East, offers encouraging prospects for Brazil in the short term. The country's production is expected to reach a **new peak of 163 MT by 2023/2024**, with its exports rising to **97 MT**.

2.2.2 A mixed long-term outlook

Despite what appears to be a record production campaign and a future increase in exports (97 MT) for 2023/2024, **Brazil's medium-term forecasts are more mixed**. After exponential growth, Brazilian production is set to stagnate; according to the FAO, **the country will produce 153 MT of soybeans in 2032**¹⁶, compared to 156 MT for the current harvest¹⁷. While Brazil accounts for almost **42% of global soybean production, this share is expected to fall to 37% by 2032**. After an 81% increase in volume between 2013 and 2023, production is forecast to fall by 2% between 2023 and 2032¹⁸.

On the export side, the picture is similar: exports are expected to reach **90 MT in 2032**¹⁹ (95 MT in 2022/2023), **falling from 60% to 53%** of total exports. After rising by 126% between 2013 and 2023, soybean exports are also forecast to fall by 5% between 2023 and 2032²⁰.

This decline in forecasts is due to a number of factors, as **Brazil's dynamism is based mainly on cyclical factors**. Brasilia has benefited from a **favourable economic climate**, particularly in terms of food price trends since the Covid-19 crisis and the start of the war in Ukraine: in September 2023, the price of a bushel of soybean was estimated at USD 1,300, compared with USD 860 in September 2019²¹. Brazil, which has benefited from rising demand and supply difficulties, has also benefited from a **favourable exchange rate, which has boosted its exports**. **Brazilian soybean yields per hectare** of Brazilian have risen to be **among the highest in the world**, while average yields for all Brazilian crops this year are considered to be **the best ever recorded**²².

¹² USDA, *World Agricultural Production*, September 2023

¹³ USDA, Country Summary, Brazil

¹⁴ Le Monde, *Au Brésil, le soja, source de puissance mondiale et de déstabilisation régionale*, September 2023

¹⁵ USDA, *Oilseeds: World Markets and Trade*, August 2023

¹⁶ OECD, FAO, *Agricultural Outlook 2023-2032*, July 2023

¹⁷ USDA, *World Agricultural Production*, September 2023

¹⁸ Calculations based on USDA, FAO and OECD forecasts.

¹⁹ OECD, FAO, *Agricultural Outlook 2023-2032*, July 2023

²⁰ Calculations based on USDA, FAO and OECD forecasts.

²¹ Source: Bloomberg <https://www.bloomberg.com/quote/S%201:COM?sref=ZF339egl>

²² Reuters, *Brazil's Conab confirms record soybean, corn crops in May report*, May 2023

Brazil is also benefiting from **lower soybean production forecasts in the United States, and therefore from less American competition**. US harvests are forecast to rise from 121 MT in 2021/2022 to 114 MT in 2023/2024. In addition to unfavourable weather conditions, US producers are likely to see a 4% decline in total soybean area next season²³. At the same time, **production in Argentina has plummeted**: affected by a historic drought, the harvest has reached its lowest level in almost a quarter of a century, with just 25 MT in 2022-2023 (compared to 44 MT for the previous season, a drop of almost 50%). To feed its industry, Buenos Aires has therefore stepped up its imports of soybean, notably from... its Brazilian neighbour²⁴.

However, Argentine supply is set to double in 2023-2024, which could affect Brazilian exports. At the same time, **China, the largest buyer of Brazilian soybean, will reduce its imports**. In addition to the slowdown in its consumption, Beijing is trying to reduce its dependence on foreign agricultural production; to this end, Chinese guidelines on the use of soy meal in animal feed have been amended²⁵. Brasilia could also be affected by **the fall in food prices, which is limited for the time being**, and by **the decline in its agricultural yields**. **By 2024, the profitability of Brazilian soybean could fall back to levels below those seen at the end of the 2010s**. This will undoubtedly be influenced by global warming: according to the Amazon Environmental Research Institute, soybean yields in the Brazilian Cerrado could fall by 6% for each additional degree of temperature rise²⁶.

2.3. Trade in corn: Brazil emerges as the leading exporter

2.3.1 Brasilia dethrones Washington

In 2022/23, Brazil produced **137 MT of corn, a record harvest 18% higher than the previous season**. Brazilian farmers benefited from favourable weather conditions, particularly high yields (6.8 tonnes per hectare) and increased productivity in the traditional corn producing states. As with soybean, the Centre-West region plays a key role in the corn industry, accounting for more than half of national production (33% of Brazil's corn is produced in the State of Mato Grosso alone). **With 12% of world production, Brazil is the world's third largest corn producer**, after the United States and China.

Capitalising on its bumper harvests, Brasilia has established itself as the **world's leading exporter of corn in 2022/23**, almost ten years after it was did so. **Brazil has thus overtaken the United States**, which has dominated the international corn market for more than half a century (Washington has only lost the top spot once, in 2013, following a devastating drought). A number of factors could explain the decline in the US harvest and exports: rising costs in the country, a growing shortage of arable land, a strong dollar, the impact of the Trump administration's trade war with China, etc.²⁷.

While US corn exports amounted to 42 MT, **Brazilian exports reached 54 MT in 2022/23**. Up 68% on the previous season, this figure represents almost **32% of world corn exports**. **China, which was previously dependent on American and Ukrainian corn, is now turning to Brazilian grain**, which is also more competitive in terms of price (a tonne of Brazilian corn was USD 30 less than a tonne of American corn in July 2023²⁸). By the end of 2022, Beijing had expanded its list of approved Brazilian corn exporters²⁹. In September 2023, China imported 1.2 million tonnes of Brazilian corn, compared to just 70,000 tonnes of American corn³⁰.

²³ USDA, *World Agricultural Production*, September 2023

²⁴ University of Illinois, Farmdoc Daily, *Brazil Breaks Soybean Export Record and Displaces Argentina in the Global Soybean Meal Market*, September 2023

²⁵ Reuters, *Easing of China's soybean appetite puts Brazil crop growth into question*, June 2023

²⁶ Le Monde, *Au Brésil, le soja, source de puissance mondiale et de déstabilisation régionale*, September 2023

²⁷ Bloomberg, *The US is losing the corn-exporting crown*, August 2023

²⁸ Reuters, *Analysis: Decades of US corn export dominance fade as Brazil seizes top supplier crown*, July 2023

²⁹ Reuters, *Brazil moves closer to China corn exports as Beijing approves traders*, November 2022

³⁰ Nikkei Asia, *U.S. corn prices slump as top buyer China turns to Brazil*, September 2023

2.3.2 A cyclical performance

The Brazilian corn market is considered promising and will continue to grow. Exports are expected increase to **59 MT in 2023/24**. Meanwhile, Brazilian production is forecast to fall from 137 MT to 129 MT, as yields decline.

As with soybean, **Brazil has taken advantage of the current economic climate to increase its exports.** In addition to its increased productivity and the fall in US exports, Brasilia has taken advantage of the fallout from of the war in Ukraine and the rise in grain prices to become the world's leading exporter of corn.

However, exports from the US and Argentina are set to rise again from 2024, as food prices gradually fall, clouding the outlook for Brazilian corn. According to the FAO, **Brazil will produce 133.6 MT and export 45.4 MT in 2032**³¹. After a 71% increase in volume between 2013 and 2032, Brazilian corn production will fall by 3% between 2023 and 2032. Exports are also projected to decrease by 16% between 2023 and 2032, after increasing by 107% increase between 2013 and 2023³².

Wheat exports: growing trade will soon make Brazil self-sufficient

Wheat production in Latin America is unevenly distributed and remains low. As a result, **Brazil's wheat production is limited** and well below its soybean and corn harvests. **Not self-sufficient, Brazil is a net importer of wheat** (mainly from neighbouring Argentina), especially as the country's consumption is increasing: from 8 million tonnes of wheat per year in 2000 to **between 12 and 14 million tonnes per year** since 2015³³.

Wheat production in Brazil has been increasing for several years and is now at record levels. From 6.2 MT in 2021/22, it has risen to **10.6 MT in 2022/23**³⁴, thanks to the expansion of cultivated areas and the use of varieties adapted to the tropical climate³⁵. Brasilia has also taken advantage of the fall in Russian and Ukrainian wheat supplies, the rise in wheat prices and the impact of drought on Argentine crops to increase its trade: **from 0.9 MT in 2020/21, exports have risen to 2.7 MT over the period 2022/23 and could reach 3.5 million tonnes in 2023/2024**³⁶. In 2022, the main destinations for Brazilian exports were Saudi Arabia (20.6%), Indonesia (19.3%), Vietnam (11.8%) and Morocco (10.8%)³⁷.

According to EMBRAPA (the Brazilian Agricultural Research Corporation), if Brazilian wheat production continues to grow by 10% per year, it could reach 20 million tonnes by 2030³⁸, allowing Brazil to turn from an importer to a net exporter. **Despite the optimism of the authorities, it is important to put the momentum into perspective.** A year and a half after the start of the conflict in Ukraine, Russian wheat exports have started to rise again, and the restoration of Argentine supplies will compete with Brazilian grain. What's more, although Brazil took advantage of the devaluation of the real and the global rise in wheat prices to increase its exports, prices have now fallen³⁹. After peaking in 2023, **wheat production is therefore expected to fall to 8.6 MT and exports to just 0.6 MT in 2032.**

³¹ OECD, FAO, *Agricultural Outlook 2023-2032*, July 2023

³² Calculations based on USDA, FAO and OECD forecasts.

³³ Sébastien Abis, *Géopolitique du blé*, Armand Colin, February 2023

³⁴ Czapp, *Brazil Develops Tropical Wheat and Predicts Self-sufficiency in 5 Years*, March 2023

³⁵ USDA, GAIN, *Grain and Feed Update, Brazil*, January 2023

³⁶ USDA, *Grain: World Markets and Trade*, September 2023

³⁷ USDA, GAIN, *Grain and Feed Update, Brazil*, January 2023

³⁸ USDA, GAIN, *Grain and Feed Update, Brazil*, January 2023

³⁹ GSA, *Food prices: a global downturn that remains fragile*, July 2023

3. A future oil power

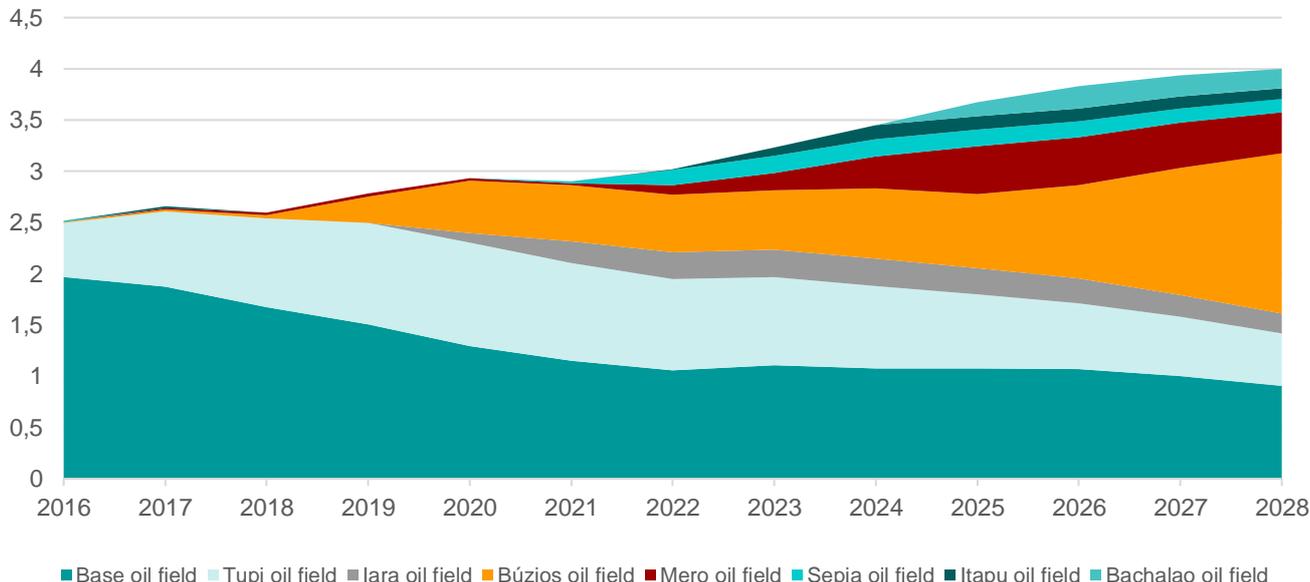
3.1. Oil industry: Brazil takes its place among the major producers

After a decade of declining production, Latin America is poised to become a leading oil producer⁴⁰. This future growth will be driven in particular by Brazil; a net importer of oil until 2014, **Brasilia is now the leading producer in Latin America and the eighth largest producer in the world**⁴¹.

Brazil's oil production has risen from 2 million barrels per day (mb/d) in 2013⁴² to 3.1 mb/d in 2022⁴³. According to the International Energy Agency (IEA), **Brazilian supply will increase by 970,000 b/d between now and 2028, reaching 4.09 mb/d by that date⁴⁴**. Almost 95% of Brazil's oil production is offshore, and relies heavily on the country's immense pre-salt reserves, which are among the largest in the world. In particular, the prolific **Santos** pre-salt basin plays a major role in the country's oil industry. Discovered in 2006 by State-owned oil company **Petrobras**, the basin off the coast of São Paulo has seen production from its many oil fields rise from 41,000 b/d in 2010 to 2.2 mb/d in 2022⁴⁵. If other pre-salt basins (such as Campos) are developed, the Santos fields would produce almost 70% of Brazil's crude oil.

These oil discoveries, which have sent Brazil into a **major oil boom**, have also led the country to make massive investments in crude oil exploration and production. Future growth in Brazilian production will be largely driven by the development of the **Mero** and **Búzios** fields, both located in the Santos basin. The Búzios field, more than 90% owned by Petrobras, is expected to increase production from **564,000 b/d in 2022 to 1.56 mb/d in 2028**. The Mero field, owned by a consortium led by Petrobras (38.6%) and including Anglo-Dutch **Shell** (19.3%) and France's **TotalEnergies** (19.3%), is expected to produce **400,000 b/d in 2028**, up from **56,000 b/d in 2022**.

Figure 9: Estimated growth in Brazil's oil production (mb/d, 2016-2028)



Source: IEA

⁴⁰ GSA, *Latin America, future keystone of world oil production*, September 2023

⁴¹ Center on Global Energy Policy, Columbia, SIPA, *Latin America's Enduring New Oil Landscape*, February 2023

⁴² US EIA, *Presalt oil and natural gas provide an increasing share of Brazil's production*, January 2015

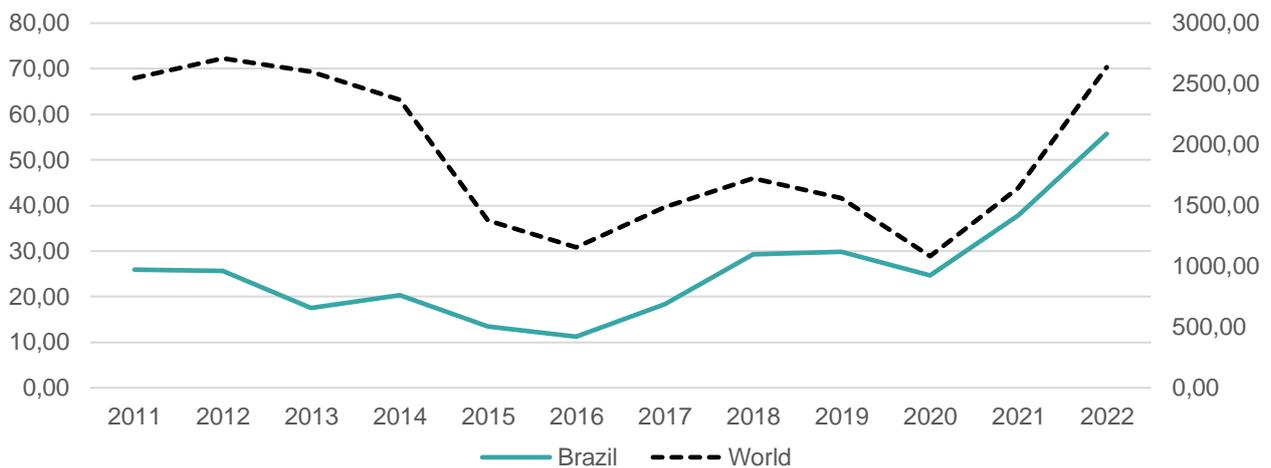
⁴³ IEA, *Oil 2023. Analysis and forecast to 2028*, June 2023

⁴⁴ Ditto

⁴⁵ The Economist, *Latin America is set to become a major oil producer this decade*, July 2023

As a result, Brazilian oil exports (both crude and refined) are on the rise, accounting for 12.7% of the country's exports in 2022. In value terms, they almost double between 2018 and 2022, reaching **USD 55.7 bn** (see figure below), **or almost 1.4 mb/d⁴⁶**, despite a drop in exports following the outbreak of war in Ukraine. Indeed, India and China have gradually reduced their purchases of Brazilian crude, preferring Russian oil sold at reduced prices⁴⁷. At the same time, Brazil has increased its crude oil exports to the United States and the European Union, in order to wean itself off Russian products.

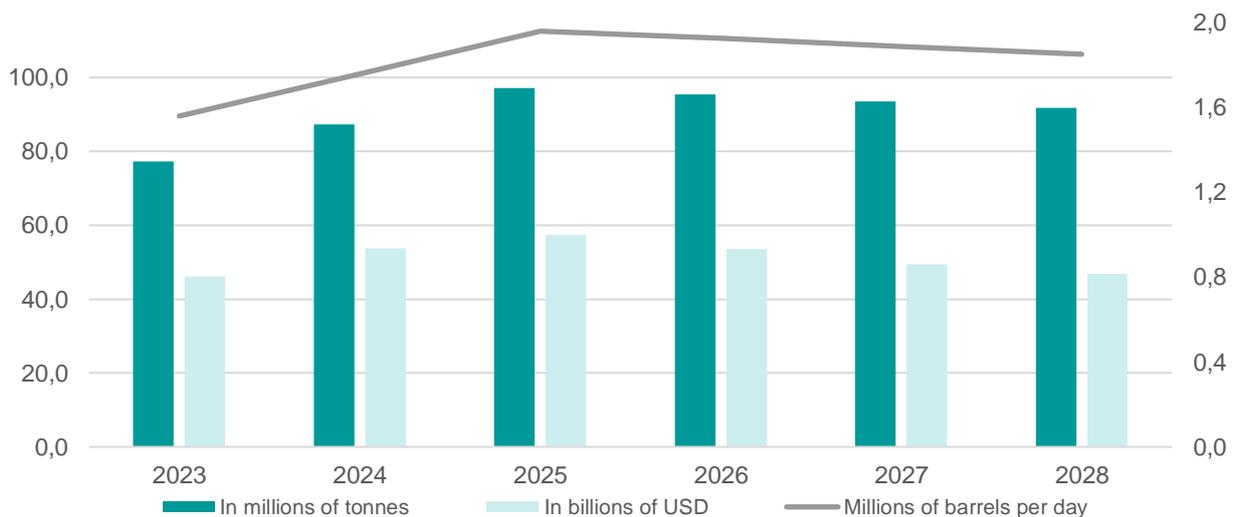
Figure 10: World (right axis) and Brazil (left axis) crude and refined oil exports (2011-2022, USD bn)



Source : TradeMap

As production increases, and if prices remain stable, Brazilian oil should play an increasingly important role in world trade, peaking in 2025. **We estimate that Brazilian oil exports will then stabilise and gradually decline in both volume and value terms, reaching 1.8 mb/d and USD 46.8 bn by 2028⁴⁸.**

Figure 11: Estimated growth of Brazilian oil exports in millions of barrels per day (right axis) and in millions of tonnes and billions of US dollars (left axis) (2023-2028)



Source: GSA forecasts

⁴⁶ GSA estimates

⁴⁷ Valor International, *Brazilian oil goes to U.S., Europe instead of China*, July 2022

⁴⁸ GSA estimates

3.2. The Lula administration, a strong supporter of the country's oil ambitions

As soon as he returned to the Brazilian presidency, Lula announced that he would **focus on the oil industry in order to promote the country's growth and make Petrobras an instrument of national economic development**. While putting a stop to his privatisation project, the Brazilian president appointed one of his close friends, former senator **Jean Paul Prates**, to head the company. At the same time, in March 2023, Brazil's Minister of Mines and Energy, **Alexandre Silveira**, presented his *Potencializa E&P* programme, which aims to encourage investment in oil basins in order to **make Brazil the world's fourth largest oil producer**⁴⁹. An ardent supporter of oil projects, Mr Silveira recently stated that he saw **no contradiction between oil production and the energy transition**⁵⁰.

With the support of the Lula administration, **Petrobras is stepping up its activities**. In addition to exploiting the pre-salt basins, the company is planning offshore operations on the equatorial margin, off the mouth of the Amazon. Over the next five years, **Petrobras is expected to devote half of its USD 6 bn exploration budget to prospecting in this region**, which could hold up to **10 bn barrels of oil**. However, the company's licence application has been rejected by **Ibama** (the Brazilian Institute for the Environment and Natural Resources), which considers the environmental risk assessment to be inadequate⁵¹. Nevertheless, Petrobras has the support of Mr Silveira, who estimates that the oil resources of the equatorial margin could generate some **USD 200 bn in revenue for the country**⁵². President Lula, a tacit supporter of the project, has been heavily criticised by environmentalists.

4. A complete overhaul of the mining industry

4.1. Iron ore, the linchpin of the mining industry

Brazil is one of the world's top five mining powers, **producing 1.05 billion tonnes of minerals in 2022**⁵³. **Brazil is a major iron ore producer**. Brasilia is the **world's second largest iron ore producer, with 410 million tonnes in 2022 - almost 16% of global production**⁵⁴.

Of the 358.2 million tonnes of minerals exported in 2022 (worth USD 41.7 bn), iron ore accounted for **344.1 million tonnes** (USD 28.9 billion in value) - a figure that represents 8.7% of Brazil's total exports that year⁵⁵. **However, the mining sector is experiencing a downturn**, both in terms of turnover and production, as well as in terms of exports: these have fallen by 28% in value terms compared to 2021 (USD 57.8 billion and 372.5 million tonnes in that year). **For iron ore, the value of exports fell by 35% between 2021 and 2022**⁵⁶. This is due to a reduction in ore imports from China, which has reduced its steel consumption as a result of the slowdown in its property sector⁵⁷. This will have a significant impact on Brazil's mining industry, as Beijing is Brasilia's biggest customer for iron, nickel and manganese.

According to the Brazilian Mining Institute (IBRAM), **the outlook for 2023 remains stable compared to 2022**⁵⁸. At the same time, iron ore exports appear to have gradually recovered by mid-2023⁵⁹. Some iron ore mines, of which there are 127 nationwide⁶⁰, are expected to increase their production capacity. In May 2023,

⁴⁹ Offshore Energy, *Turning Brazil into world's fourth largest oil producer with new hydrocarbon exploration programme*, March 2023

⁵⁰ Financial Times, *Brazil minister says oil and green ambitions are not contradictory*, September 2023

⁵¹ Folha de S. Paulo, *Ibama Denies Petrobras' Request to Drill for Oil at The Mouth of the Amazon*, May 2023

⁵² Breakbulk, *Nation Looks to Nearly Double Crude Output by 2029*, July 2023

⁵³ IBRAM, *Panorama da Mineração do Brasil 2023*, 2023

⁵⁴ USGS, *Iron ore*, January 2023

⁵⁵ Direction générale du Trésor, *Brazil's foreign trade*, June 2023

⁵⁶ IBRAM, *Panorama da Mineração do Brasil 2023*, 2023

⁵⁷ Folha De S. Paulo, *Setor imobiliário chinês ameaça exportação de minério de ferro do Brasil*, August 2023

⁵⁸ IBRAM, *Panorama da Mineração do Brasil 2023*, 2023

⁵⁹ Money Time, *Exportação de minério de ferro do Brasil tem maior volume mensal em 8 meses*, June 2023

⁶⁰ Mining Technology, *The five largest iron ore mines in operation in Brazil*, July 2023

Brazilian iron ore giant **Vale** announced that it would invest USD 2.7 billion to increase its iron ore production, betting on strong demand⁶¹.

4.2. Brazil wants to step up the pace on critical metals

Brazil is rich in critical metals, with an estimated 94% of the world's reserves of niobium, 22% of graphite, 16% of rare earths and 10% of nickel⁶². With most of these deposits are still underground, Brazil is not yet considered a major producer of critical metals. **However, despite the challenges, the country is keen to accelerate the development of these resources to meet growing demand.**

Brasilia is already **the world's fifth-largest lithium producer**, with plans to mine 2.2 million tonnes by 2022⁶³. While this figure may seem disappointing compared with Chilean or Australian production, **it reflects Brazil's ambitions to eventually export locally refined lithium for use in the design of batteries for electric vehicles.** To attract foreign investors to Jequitinhonha (in the state of Minas Gerais), where 85% of the country's lithium reserves are located, the Brazilian authorities recently presented the opportunities offered by this "Lithium Valley" at the headquarters of Nasdaq⁶⁴. The federal government plans to spend **USD 2.1 bn by 2030 to promote the lithium value chain**⁶⁵.

5. A stronger presence on the international stage

5.1. A return to multilateralism, sometimes denigrated

The day after his victory in the presidential elections, Lula declared that Brazil was "back in the international community". His election was well received by the international community, at odds with the Bolsonaro government. Under Bolsonaro, the country had gradually become diplomatically isolated. Under the impetus of Mauro Vieira, the new foreign affairs minister, **Brasilia has resumed its proactive diplomatic approach.** Lula has rejoined a large number of international organisations and stepped up diplomatic visits to its traditional partners, while drawing closer to Africa, which had been neglected by his predecessor.

The Brazilian president wants to expand Brazil's diplomatic and economic cooperation with Africa. The country's increased agricultural production could enable it to increase its grain exports to the continent. African countries are looking to diversify their supplies in the face of risks to their wheat (war in Ukraine, risks to Black Sea trade), sugar and rice imports (restrictions on exports from India). Following on from his first terms in office, **Lula also visited Africa in August 2023.** On the fringes of his trip to Johannesburg for the BRICS summit (see below), the Brazilian president highlighted the commercial opportunities offered by the continent, while criticising the low level of trade (3.5% of Brazil's foreign trade in 2022⁶⁶). After South Africa, Lula also visited Sao Tome and Principe and Angola, where he signed several memorandums of understanding⁶⁷.

Lula also intends to **put Brazil back at the centre of the South American game.** The Brazilian president, who wants to give new impetus to regional integration of the continent and relaunch UNASUR, organised a symbolic summit in May 2023 attended by twelve heads of state. Venezuelan President Nicolas Maduro - *persona non grata* in the country under Bolsonaro - was one of the participants, while Lula, a critic of Europe's position on Venezuela, welcomed the start of a new era between Brasilia and Caracas.

On the political and economic front, the Brazilian president has also **re-engaged with his Western partners, first and foremost the United States** - although this does not prevent him from wanting to **contribute to the**

⁶¹ Bloomberg, *Vale Moves Ahead With \$2.7 Billion Amazon Mining Expansion in Clean-Steel Bet*, May 2023

⁶² Source : USGS

⁶³ USGS, *Lithium*, January 2023

⁶⁴ Le Point, *Brésil : la 'vallée de la misère' propulsée en eldorado du lithium*, June 2023

⁶⁵ Horizon Engage, *Lithium Valley Brazil: Foreign Investment in the EV Value Chain*, May 2023

⁶⁶ Brasil de Fato, *Lula arrives in Angola to make up for lost time in the African market*, August 2023

⁶⁷ TeleSur, *Brazilian President Begins African Tour With Visit to Angola*, August 2023

de-dollarisation of the world economy⁶⁸. As well as advocating the creation of a common currency for the BRICS, Lula has revived the New Development Bank (NBD), headed by former Brazilian president Dilma Rousseff. **Brasilia has also forged closer political ties with Beijing**, its largest trading partner: demonstrating his good understanding with Xi Jinping on a number of issues, Lula also intends to attract Chinese investment. While condemning the invasion of Ukraine, Lula has never imposed sanctions on Russia and at one point called for an end to arms supplies to Kiev, accusing the Western camp of encouraging the war.

By returning to multilateralism, Brazil has regained its international presence and Lula intends to play a leading diplomatic role, a position reinforced by the environmental voluntarism that the Brazilian President is demonstrating on the international stage.

5.2. Brazil will play a leading role in the BRICS

Brazil has been a member of the BRICS group since its creation in 2009, and has always played a central role. Increasingly presented as an alternative to the G7 in a context of de-dollarisation and emancipation from American hegemony, the BRICS have recently expanded, welcoming 6 new members at the Johannesburg Summit. The group now brings together 45% of the world's population, with a combined GDP approaching USD 30 billion.

Among the core BRICS (Brazil, South Africa, China, Russia and India), **Brazil is set to play a leading role, with optimistic growth and rising exports**. While China, India and Russia are also major commodity exporters, **Brazil now appears to be the only country in a position to realise its full potential**.

In addition to its growth, the country has abundant reserves, many of which have yet to be tapped. **In terms of oil, Brasilia is set to see a rapid increase in production, while other countries are expected to stagnate (Russia) or even decline (India, China)**. As a major agricultural nation, **Brazil will also play an increasingly important role in global food security, while remaining self-sufficient**.

As a result, Brazil's commodity exports are growing, while Lula, who has shown a certain diplomatic neutrality, maintains good political and economic relations with all the players on the international scene. Conversely, **Russia, geopolitically isolated, is seeing its economy held back by Western sanctions**. **India, whose priority is to feed its 1.4 billion people, is forced to resort to protectionism in the event of a poor harvest**, while **China is suffering from a double economic and demographic slowdown**. Finally, South Africa can hardly compete with the Brazilian giant.

Brazil therefore seems to have room to increase its influence on the international stage. It remains to be seen which path the country will take; **beyond exporting low-value products, President Lula wants above all to develop value-added agriculture and strengthen the country's industrialisation**.

⁶⁸ Financial Times, *Brazil's Lula calls for end to dollar trade dominance*, April 2023