

A low-angle photograph of a large metal lattice tower for high-voltage power lines, set against a clear blue sky. The tower's structure is composed of numerous interconnected steel beams, and several insulators and power lines are visible extending from the top of the tower.

CADERNO OPINIÃO

INTERVIEW WITH CARLOS OTAVIO QUINTELLA

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SOBRE A FGV ENERGIA

A FGV Energia é o centro de estudos dedicado à área de energia da Fundação Getúlio Vargas, criado com o objetivo de posicionar a FGV como protagonista na pesquisa e discussão sobre política pública em energia no país. O centro busca formular estudos, políticas e diretrizes de energia, e estabelecer parcerias para auxiliar empresas e governo nas tomadas de decisão.

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OPINIÃO

INTERVIEW WITH CARLOS OTAVIO QUINTELLA

Carlos Quintella
Diretor Executivo – FGV Energia

Can you tell us a little about the history and current activities of the Getúlio Vargas Foundation (Fundação Getúlio Vargas – FGV)?

The Fundação Getúlio Vargas is a higher-education institution dedicated to promoting Brazil's economic and social development, and it was founded in 1944. It has eight schools, two research institutes, and a long tradition of excellence in research and innovation in areas such as administration, economics, law, social sciences and applied mathematics. It enjoys an international reputation and undertakes joint ventures and student-exchange programmes with various partner institutions abroad.

What were the reasons behind the creation of the energy studies centre (FGV Energia)?

The FGV had wanted to set up the centre for quite a while, and in 2014 we felt the right moment had arrived because there were obvious signs of change in global energy production. Given the vast knowledge at its

disposal, FGV Energia will be able to stimulate debate around the theme of energy, combining innovation with impartiality and credibility.

What are the main goals of FGV Energia?

To put the FGV at the forefront of analysis and research in the energy debate in Brazil, supporting the development of public policy with a geopolitical, sustainable vision. And to contribute to the FGV becoming internationally recognised as one of the leading think-tanks in the field of energy.

Brazil's energy sector has been in the headlines during the last year and is going through a hard time. What are your views on this? What are the impacts on doing business in Brazil?

I'd say the hard time we've been enduring is a consequence both of poor decision-making and some unforeseen events. The electricity distribution companies' cash flow was adversely affected by the MP 579 energy bill in 2013. Between 2008 and 2013 there was a lack of oil and gas licensing rounds which, along with other regulatory choices, hindered competition and the development of certain energy markets, leading to a more centralised and less diversified energy sector. It wasn't a good way to prepare for the events that followed. But also, almost unprecedented drought conditions have limited Brazil's hydroelectric power production. There have been environmental licensing issues for new hydroelectric projects. Oil prices have been falling and then we've also have the Petrobras scandal, resulting in investment cut-offs from the oil and gas sector. All of these count as unforeseeable events.

The main question, however, is what lessons we draw for the future. Government planning needs to be clear from the point of view of the whole energy sector, and public policy needs to become more coherent. There are plenty of interesting and profitable business opportunities in Brazil – but they still require significant interaction with the government. That's why it's essential to set clear guidelines for all energy sources, so that businesses and the government can

start pulling in the same direction.

It's clear that there really is an energy crisis in Brazil. The electric energy sector has problems with high prices and with maintaining supply. The low prices of petrol, meanwhile, affect not only the oil sector but also ethanol. Both Eletrobras and Petrobras have cash-flow problems that are jeopardising their investment programmes.

The electric energy crisis has been aggravated by low rainfall in the last two years but it was caused by policy decisions that stimulated households' energy consumption at a time when production costs were high, bringing about risks and losses. It's not impossible that Brazil will find it difficult to supply the energy necessary for economic growth – and the situation could be worsened by the current low level of the reservoirs used by the hydroelectric plants. It's been necessary to operate thermoelectric power stations at full capacity to partially compensate for the fall in supply of hydroelectricity. However, using the thermoelectric plants for long periods is an expensive option, and it depends on the supply of gas being sustained and on the continued generation capacity of the plants themselves.

Overall it's a scenario which has heightened the perception of risk, postponed investment, and been bad for business. Concerns about supply, along with the increased cost of energy, have had a negative impact on economic activity and on the competitiveness of Brazil's energy sector.

What should Brazil be doing to solve the energy crisis?

The different parts of Brazil's energy sector – including oil, natural gas, renewables and electricity – have different problems. Overall, however, one of the underlying factors is the National Energy Policy, exposed by the flaws of the Petroleum Law (Law 9478/1997). This piece of legislation is very broad and doesn't provide precise indications of the way ahead for the Brazilian energy matrix. Moreover, on many points the law is even contradictory and doesn't state

what the priority should be when conflicts arise. The first step, therefore, should be to review and clarify the National Energy Policy.

In the short term, to deal with the crisis in the energy sector there needs to be a sharp adjustment to bring demand and supply closer into line – and that’s happening through the fall in consumption, pushed down by high prices, with obvious repercussions for the level of economic activity.

There’s a pressing need to reorganise the oil and gas industry, affected as it has been by institutional decisions which failed to produce the necessary levels of investment.

Certain things need to be done so that in future the country can avoid getting into the kind of problems we’ve seen in recent months. With the role of the thermal power plants increasing, if there’s still a policy of not building more reservoirs it will be important to establish clear policy with regard to thermal power generation. The energy matrix needs to be diversified; long-term planning needs to be improved, as does the business environment in the energy sector; and there needs to be greater investment in transmission lines. There’s also the problem that the expansion of nuclear energy has been on hold since the accident in Japan, while in relation to Brazil’s energy needs there’s been little progress on wind or solar energy, or biomass. There’s a tough job that needs to be done in revising the rules of the institutional model. The system of using a mathematical model as the basis for dispatching the power plants and for setting short-term prices hasn’t been working well.

FGV Energia is leading a study on local content for the oil and gas industry. What have been the key findings?

The local content requirements in the concession contracts for the exploration and production of oil and natural gas are designed to increase the participation of domestic industry in the projects. In so doing, the aim is to encourage technological development, workforce training and job creation in the sector.

This mechanism isn’t supposed to play the role of an industrial policy: instead it’s a tool, part of a broader policy which also includes several other sectors apart from oil and gas.

In the first rounds of the ANP [Brazil’s oil and gas regulator] auction of blocks, the local content percentages served as a stimulus to the shipbuilding industry, whose development had been prioritised but which was in the doldrums at the time. This initiative strengthened new shipyards, attracted international partners who had technological expertise, created jobs, and boosted regional development.

However, with the changes in the rules for setting the local content percentages established in the contracts, stimulating the competitiveness of the supply chain for the oil and gas industry is now only of secondary importance.

With the local content percentages becoming a major factor in deciding the winners in the bidding round, and in the absence of a clearly defined industrial policy, we’re heading towards a situation which could be seen as protectionist and which doesn’t necessarily encourage greater competitiveness or technological development – which are the precisely factors that would lead the domestic suppliers to become sustainable and to not need new incentives.

The heavy weight of the local content percentages in the bidding rounds caused a sudden increase in demand for goods and services, but the domestic supply chain has not developed the capacity necessary to meet that demand. So the results fell short of what had been agreed and led to heavy fines, which the oil and gas operators are either paying or legally challenging.

The current rules still require operators to provide a great pile of certificates which need to be recognised by certifying agents, thereby increasing costs for the local suppliers.

So, the studies that have been carried out point to a

need to review in the local content rules, as well as to the need for a more comprehensive industrial policy that focuses on competitiveness as the basis for the sustainability of the domestic oil industry.

What are the currently the main barriers to doing business in Brazil?

One barrier is the ancillary obligations—the bureaucratic processes companies are obliged by the government to go through. Eliminating them would certainly create a better business environment in Brazil. Also, there are infrastructure bottlenecks which limit the country’s growth capacity. And then there are the institutional and regulatory weaknesses in the energy, transport and communications industries, among others, which have hampered investment and heightened investors’ perception of risk.

What business opportunities does Brazil offer? Are there opportunities for British companies in particular?

One of the most promising areas in the Brazilian energy sector is the expansion of wind power, with a large number of wind farms coming into operation every year. Last year Brazil came fourth in the world in terms of the additional wind capacity it installed. And the UK’s experience in the area of wind power is well known internationally, so Brazil’s wind power sector could present a good opportunity for British companies.

The consumer market at the moment is in a period of stagnation, affected by the exhaustion of the government’s macroeconomic model and by the subsequent need for adjustment measures. But the growth potential of that market is very significant in the medium term. When the recovery comes, well-positioned companies should certainly be able to take advantage of it. Brazil is a country of continental proportions and a leader in South America; a country whose riches have hardly been exploited so far. That’s why it’s important, above all, to keep believing.



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