

THE WALL STREET JOURNAL.

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THURSDAY, OCTOBER 16, 2003 - VOL. CCXLII NO. 76 - ★★★★★ \$1.00

WSJ.com

Fading Green

Brazil's President Sees New Growth In the Rain Forest

Dismayed Environmentalists Find Former Ally Aiming Many Projects at Jungle

Pipeline and Dam in Amazon

By MATT MOFFETT

MANAUS, Brazil—When Luiz Inacio Lula da Silva became Brazil's first elected leftist president in January, environmentalists cheered. They regarded the co-founder of the Workers Party as progressive and "green" in his politics.

"We believed in Lula," says Jecinaldo Satere Mawe, an indigenous leader who worked for years with environmentalists to block Brazil's giant state oil company from running two natural-gas pipelines through part of the Amazon rain forest.

To the dismay of environmentalists, however, Mr. da Silva believes in the pipelines. Driven by economic pressures, energy concerns and political compromises, Mr. da Silva has made reliable domestic fuel supplies one of his government's priorities and has outlined an ambitious development program that ranges across the Amazon region. *Petróleo Brasileiro SA* plans to start construction early next year of the \$1 billion project to bring gas from the vast Uruçu field to the teeming cities at the jungle's edge.

Activists are mounting a last-ditch struggle to halt *Petrobras*, in what is shaping up as one of the first of potentially many environmental battles for Mr. da Silva's administration. The president wants to pump billions of dollars into highways, railroads, airports, waterways and other projects that could change the face of the rain forest. He's even taking a second look at a long-stalled project to build one of the world's largest dams in the Amazon.

"This region can't be treated like it was something from another world, untouchable, in which the people don't have the right to the benefits," Mr. da Silva said in a June speech.

Opposition to pipelines has prevented *Petrobras* from recouping its \$7 billion investment in Amazon exploration and development. Meanwhile, energy con-

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Fonte: The Wall Street Journal

Data: 16/10/2003 Pg: A1, A18

Class: 72



sumers in the rest of Brazil must pay \$500 million a year to subsidize consumers in Amazon cities who use costlier and dirtier diesel fuel.

The president's program has surprised and delighted industrialists and big farmers, who expect Mr. da Silva's leftist credentials to help break taboos over Amazon development. The pipelines are "easier to do with Lula because he has a lot of credibility," says Virgilio Mauricio Viana, the Harvard-trained environment minister for the state of Amazonas, which is more than twice the size of Texas and has managed to keep 98% of its rain forest intact.

Mr. da Silva, 57 years old, is a former union leader who gained respect among Brazilians for his opposition to the military government that ruled during the 1970s and part of the 1980s. His ties to environmentalists stem from his friend-

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New Growth in Brazil's Rain Forest

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ship with his Workers Party co-founder Chico Mendes, an Amazon rubber tapper who became an international symbol of the fight against predatory development after his murder in 1988.

Mr. da Silva made three runs for the presidency in the 1980s and 1990s, but he was considered too radical to be elected president. His triumphant campaign last year unleashed panic on Latin American financial markets, even though he had clearly shifted toward the center, naming a textile magnate as his running mate. And after his election, Mr. da Silva at first cheered greens by naming as environmental minister Marina Silva, a former senator who came from a family of Amazon rubber tappers.

On the Urucu project and many other policy matters, Mr. da Silva has advanced a more-conservative agenda—albeit with progressive touches—than some of his more right-wing predecessors ever did. In his first year in office, he has wrung inflation out of the economy with high interest rates, pressed social-security cuts that have incensed his erstwhile union allies and drastically reduced spending to achieve a high budget surplus. Brazil's financial markets have rallied sharply, but the economy is still weaker than Mr. da Silva would like, which is one reason he's interested in promoting infrastructure projects.

By nature, "Lula is a pragmatist," says Paulo Adário, Amazon campaign coordinator for Greenpeace. Mr. Adário says that Mr. da Silva's aggressive energy-development policy is colored by the experience of his predecessor, Fernando Henrique Cardoso, who endured an energy crisis that forced drastic nationwide rationing and sapped support for his administration.

The president's pro-development stance also reflects his Workers Party's newfound political pragmatism. The party had shunned alliances with other parties in Mr. da Silva's three failed presidential bids, but last year it formed coalitions.

One of its partners, the leftist Popular Socialist Party, elected Eduardo Braga, an electrical engineer and staunch pipeline advocate, as governor of Amazonas.

Mr. da Silva chilled environmentalists last month when he unveiled his \$66 billion, four-year infrastructure-development plan. The "Brazil for Everyone" program includes plans to double the current generating capacity of the Tucuruí hydroelectric project in the eastern Amazon, as well as a review of a long-shelved plan to build the \$4 billion Belo Monte dam. Located on the Xingu River, Belo Monte would be the third-largest hydroelectric project in the world in terms of power generated, and would entail the flooding of roughly 155 square miles, about half of which would be the river bed itself.

Though the government may not find financing for all of the projects, the plans alone can lead to deforestation as land speculators and settlers pounce on prime properties, says Roberto Smeraldi, head of the Brazilian chapter of Friends of the Earth. There is evidence that destruction had been occurring at a faster pace even before the government's infrastructure plan came out. Recently released satellite surveys showed that a slice of the rain forest about the size of Vermont was wiped out by farmers, cattlemen, loggers and other settlers in the 12 months up to August 2002, the second-highest level of destruction in the 14 years records have been kept.

The government, working with local authorities and business, is moving quickly in its efforts to launch some projects. One priority is paving a 460-mile stretch of highway BR-163, which connects the central farm state of Mato Grosso with the heart of the Amazon. Soybean growers say the refurbished road will allow them to boost exports by almost \$2 billion a year, but environmentalists argue that it will promote settlement and large-scale farming of mostly untouched areas.

Petrobras, a Big Board-listed company with revenue of \$22 billion last year, has earned a shaky environmental reputation in Brazil. In 2000, separate oil-pipeline leaks in southern Brazil fouled Rio de Janeiro's Guanabara Bay and the Iguazu River. In the latter case, Brazilian environmental regulators fined Petrobras the equivalent of about \$50 million, the largest such penalty in the country's history. The company is still contesting the fine.

Those disasters, plus staunch opposition from Amazonas politicians and ecologists, had just about scuttled the Urucu pipeline plan by last year. But it popped back on the agenda after the election of Mr. da Silva.

The president has tried to reduce the state oil company's monolithic, all-business reputation. He named a geologist and Workers Party senator to run the company and placed other party loyalists in key positions. Under the new leadership, the company has boosted its community efforts, including a hunger-eradication campaign.

Gov. Braga says Petrobras has committed to creating a \$15 million compensation fund for the affected area that will spur social programs and sustainable industries. Petrobras says it is still negotiating on the exact figure.

Petrobras says it knows the responsibility involved in operating in the rain forest. "The Amazon region is a very critical region in environmental terms, [and] any intervention has to have the necessary caution," says Ildo Luis Sauer, head of Petrobras's natural-gas operations. He says the

company aims to "guarantee the preservation of the environmental equilibrium" and "to preserve the social and cultural interests, which are an immense patrimony."

The Urucu field, discovered in 1986, represented 20% of all of Brazil's gas reserves, until an even bigger find earlier this year off the coast of the state of Sao Paulo. There is already one pipeline linking Urucu to the town of Coari. Petrobras wants to build one of the new pipelines to run from Coari 280 miles northeast to the manufacturing center of Manaus. The other new pipeline would run from Urucu 340 miles south to the commercial and natural-resources center of Porto Velho.

Government officials say the Urucu project would create about 5,000 construction jobs, at a time when one-third of the state's 20,000 construction workers are unemployed. But development can bring social problems along with economic gains. Petroleum royalties are helping to build schools and hospitals in the town of Coari, but they're also igniting frenetic growth, as well as a surge of drugs, disease and child prostitution.

Since Petrobras began building the crude-oil pipeline in the 1990s, Coari, the Amazon's former banana capital, has seen its population double to around 70,000. Even Gov. Braga, the pipeline booster, allows that oil brought to Coari "problems that the American West had in the era of the gold rush."

There are about 10 reported cases of child prostitution each month, says social worker Ediane Santos. Amid the stilted houses on the river, police are fighting an influx of "honey," marijuana blended with coca powder.

Economic benefits have been slow to trickle down. A former mayor is under investigation by state auditors for misuse of funds. The current mayor, Adail Pinheiro, has used the roughly \$15 million in annual oil royalties to build several air-conditioned schools, a new municipal auditorium, a hospital and 11 neighborhood health centers. But the mayor finds that every time he solves one problem, a new one emerges. The city is coping with a malaria epidemic that afflicts about 7% of the populace.

"I am amazed by these new buildings, but I always question whether we are better off than we were before Petrobras came," says Cidronio Soares, owner of a general store. Sales have tripled since the mid-1990s and he has branched out into selling saw blades and wheelbarrows. Yet Mr. Soares has been robbed twice and sleeps with a tire iron close by.

"You never used to lock the door in Coari," said Mr. Soares. "I don't know if we'll survive another pipeline and more growth."

Petrobras has been flying groups of reporters, academics and politicians to the Urucu production field, which Petrobras has turned into an environmental showcase in recent years. The company's operations have won numerous commendations for their high environmental standards. To replant damaged areas of the rain forest, Petrobras maintains a nursery with 55 species of trees and 95,000 seedlings.

A bigger concern for environmentalists is what would happen deeper in the jungle, along the route where the pipeline would be built and maintained. The pipeline routes run near Indian territories and archeological sites, and ecologists question the company's ability or interest in keeping settlers out once the construction is finished. Antipipeline groups also are concerned that the environmental enforcement agency, along with other government bodies, has been hit hard by budget cuts that Mr. da Silva imposed to satisfy financial markets and the International Monetary Fund.

On the Urucu-Porto Velho pipeline, Petrobras has been hamstrung by a federal-court decision to hold up licensing due to deficiencies in the company's environmental-impact study. For the segment from Coari to Manaus, Petrobras this week released its environmental-impact study, which will now be subject to public debate.

Environmentalists hope to trap the pipelines in a procedural thicket. It takes only 50 signatures on a petition to force a hearing, and the Pastoral Land Commission, a social group linked to the Roman Catholic Church, says it will circulate petitions in every hamlet in Amazonas, trying to instigate many hearings.