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## [Brazil - Profiting more from doing the same: The financialization of Fibria's eucalyptus monocultures](#)

*A piece of news circulating in Brazil in 2013 appeared odd at first glance: Fibria, one of the world's largest producers of pulp wood from eucalyptus monocultures, owner of nearly 1 million hectares of land in Brazil, sold 210 thousand hectares of "its" land to Parkia Participações. When Brazilian press reported the transaction, the company stated it was considering selling almost half of its land in Brazil, i.e. about half a million hectares (1) in a similar fashion. Thus, questions arose, such as, why would a company which – like its peers - had previously always sought to seize more and more land to expand its eucalyptus plantations, be willing to let go of the land? How does this work?*

### **How can getting rid of land be good business?**

First, this sales agreement can be an excellent business proposition for Fibria in the short term: with the transaction Fibria received R\$ 1.65 billion (approximately 695 US\$ million), out of which R\$ 1.4 billion was a cash payment. Fibria used the money to reduce its debt (2). "This transaction is in line with the company's strategy to strengthen its capital structure," and it also "puts Fibria in position for a new growth cycle", Fibria said in a statement (3). According to the director, the agreement with Parkia also aims to ensure Fibria's expansion project, in this case a new production line at the pulp mill in Três Lagoas in Mato Grosso do Sul (4).

It is important to note that the sale does not mean that Fibria will stop planting eucalyptus on the land the company sold. As stipulated in the agreement, Fibria and Parkia plan to maintain the eucalyptus plantations for pulp production. Both companies would benefit: Fibria would get 60%, and Parkia 40% of the wood. Furthermore, Fibria has the right to buy this wood now owned by Parkia at fixed price, which will serve as a "lease" payment to investors for using the land. (5)

Another benefit derived from the agreement is that Fibria's land tax payments are transformed into "deductible expenses." Fibria confirmed that the "use of tax losses will bring the income tax on capital gain back to zero" As such, this business helps the company pay less tax. It is important to remember that exporting companies like Fibria already receive incentives and tax exemptions inside and outside Brazil. (6)

### **How can this also be a good deal for those who buy the land?**

Having paid R\$ 1.4 billion in cash to Fibria, is Parkia also benefiting from this transaction? It is evident that there is no immediate profit for Parkia. It was able to pay cash because its purchasing power comes from investors with ample disposable financial capital. Since the last economic and financial crisis of 2008, investment funds such as pension funds have increasingly sought new markets to invest. Land investments, in tree plantations for pulp/paper in countries in the global South such as Brazil, , are considered a relatively safe and timely investment; over time, they promise significant returns - especially when compared with interest rates for investment funds in the funds' countries of origin. Funds for new financial capital inflows to pulp monoculture businesses can be

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seen as a large scale "financialization" of the sector, and of "nature" itself. (See Bulletin June 2013).

Fibria emphasized that Parkia is controlled by Brazilian investors, since as per Brazilian legislation, foreign companies cannot own large tracts of land. But, the fact that Fibria admits that Parkia also has foreign investors, such as pension funds, through the Participation Fund (FIP), explains the "formula" adopted by Parkia, a "Brazilian" company but with foreign investors. (7)

Parkia appears to be banking on the value of land increasing, and thus benefitting from such increase in land valuation. The company is speculating on the fact that in Brazil, as in many other countries, the price of land has increased substantially over the years, which made land an excellent source of profit. Economic recovery and speculation on the back of this recovery are so crucial to this transaction that Fibria will only receive the additional value of the purchase - the purchase price which was not paid in cash - if land values actually increase (8).

But that is not all. As mentioned above, as part of the transaction Parkia now owns 40% of the wood produced on "its" land; Parkia can profit from selling this wood for pulp production, which continues unaffected by the land "sale". Detailed information on the agreement between Fibria and Parkia (9) is available online. The agreement is publicly available but written in technical-financial English, even though the official language of Brazil is Portuguese. The text states, e.g.:

- That the purchase is related to a set of assets. In fact, such business "assets" are plots of land, with names, and locations;
- That the purchase is not done directly, but through four new special purpose companies – collectively referred as "NEWCOS" - whose shares are immediately purchased by Parkia.
- That Fibria and Parkia can sign "forestry partnership agreements" which are agreements on activities (planting and cutting of eucalyptus) in the selected "assets" (i.e. plots of land), on the basis of mutual benefit.

### **Challenges for affected communities**

While the company celebrates that: "this transaction (...) puts Fibria in position for a new growth cycle" (10), it is important to ask: what does this type of transaction mean for communities resisting Fibria's plantations or for affected communities or social movements in rural areas?

On the one hand, and without doubt, it is more difficult for communities to identify the owner of the land with this type of sales agreements, since there is no transparency. In the case of Parkia, there is a lack of public information about the company: its objectives and activities, who its investors are, including which pension funds and others that are part of the transaction and take control of the land. There is no company website with this basic information available on the internet, only some press releases and the English contract between Fibria and Parkia quoted above. The latter simply mentions that Parkia is based in Rio de Janeiro in the posh neighbourhood of Barra da Tijuca. (11)

Another consequence is that the transaction strengthened Fibria because it provided the company with a new way of access to more financial resources. The company already announced it will be taking advantage of the transaction for expansion of its activities in the State of Mato Grosso do Sul (12). That expansion of plantations also means that a larger number of communities will be affected.

Perhaps one of the biggest challenges is to transform the resentment against this latest form of profiteering which labels vital and unique community areas as 'assets' into motivation for the affected social movements to renew their struggle against monoculture plantations in Brazil and the

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rest of the world. These new financialization trends have serious implications for all those who have already been struggling for a long time to regain control over their territories, but also for other communities trying to resist Fibria's further expansion. Not to mention workers who will also suffer with this unprecedented type of agreement, since Fibria and Parkia seek to increase profit for their shareholders and investors.

The International Day of Peasant's Struggles was celebrated in April, an opportunity to remember that social movements in rural areas have always emphasized that land gives us life. Therefore, we cannot then accept that land be transformed or "financialized", to become a mere object of speculation. Such moves must always be rejected.

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2. [http://www.fibria.com.br/web/pt/midia/releases/release\\_2014mai13.htm](http://www.fibria.com.br/web/pt/midia/releases/release_2014mai13.htm)
3. <http://exame.abril.com.br/negocios/noticias/fibria-conclui-venda-de-terras-para-a-parkia--2>
4. <http://tissueonline.com.br/fibria-anuncia-venda-de-210-mil-hectares-de-area-florestal/>
5. See reference (3)
6. See reference (1)
7. See reference (1)
8. See reference (2)
9. [http://www.sec.gov/Archives/edgar/data/1110649/000110465914014508/a14-6529\\_1ex4d4.htm](http://www.sec.gov/Archives/edgar/data/1110649/000110465914014508/a14-6529_1ex4d4.htm)
10. See reference (3)
11. See reference (9) and more news on who is behind Parkia  
<http://tijolaco.com.br/blog/?p=12171>
12. See reference (4)