

BRAZIL'S EMERGENCE AS LATIN AMERICA'S DIGITAL HUB — CAN A RENEWABLE ENERGY POWERHOUSE MAKE DATA CENTERS A NEW INDUSTRY? —

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SUMMARY

- Brazil is the largest market driving data center investment in Latin America. Large-scale projects are moving forward as companies view the growing demand for AI and cloud services as a business opportunity, and hyperscalers are also stepping up their investments.
- Brazil's abundant and low-cost renewable energy, well-developed communications infrastructure—including submarine cable networks connecting the country to both regional and global markets within and beyond Latin America—and government measures such as national policies and tax incentives are also supporting investment. On the other hand, constraints on the power grid have been identified as a potential risk that could result in unanticipated costs for DC operators.
- For Brazil to position the data center industry as a new growth engine as a renewable energy powerhouse, the government must prioritize addressing power infrastructure constraints, institutionalizing tax incentives, and clarifying the legal and regulatory framework surrounding AI businesses.

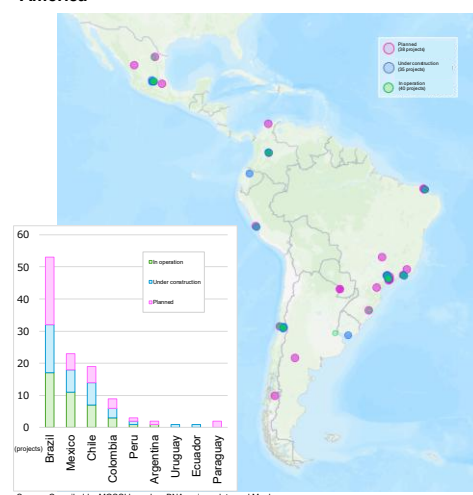
1. BRAZIL LEADS LATIN AMERICA IN DATA CENTER INVESTMENT

1-1. INCREASE IN DC INVESTMENT IN LATIN AMERICA

The global data center (DC) market continues to grow steadily, driven by rising demand for digital infrastructure, cloud computing, and AI. In Latin America, cloud demand is expanding as telecommunications infrastructure advances with the rollout of 5G and as companies and society become increasingly digitalized, while AI workloads are also increasing. To meet this demand, investment in DC businesses is expanding, particularly in Brazil, Chile, and Mexico (Figure 1).

Latin America remains a relatively small DC market, accounting for only around 2% of global capacity in 2025. However, its DC capacity grew at

Figure 1: Distribution of data center projects in Latin America



a compound annual growth rate (CAGR) of 11.7%¹ over the three years leading up to 2025. Although this was lower than the US (18.5%), it exceeded the Middle East and North Africa (10.1%), Europe (7.25%), and Japan and South Korea (8.7%). According to BloombergNEF's forecast, the CAGR for DC capacity in Latin America from 2025 to 2030 will be 13.9%, exceeding the global average of 12.9%.

1-2. BRAZIL, LATIN AMERICA'S LARGEST MARKET

Brazil is the largest DC market in Latin America, accounting for around 60% of total investment in the region. The Brazilian Data Center Association (ABDC) estimates there to be 162 DC facilities in the country as of February 2025. Power demand associated with DC connections is on the rise, and applications for grid connections submitted to the Ministry of Mines and Energy surged from 12 in May 2024 to 52 in June 2025. If all projects obtain connection approval, power demand for DCs could expand from 2.5 GW² in 2025 to 13.2 GW by 2035.

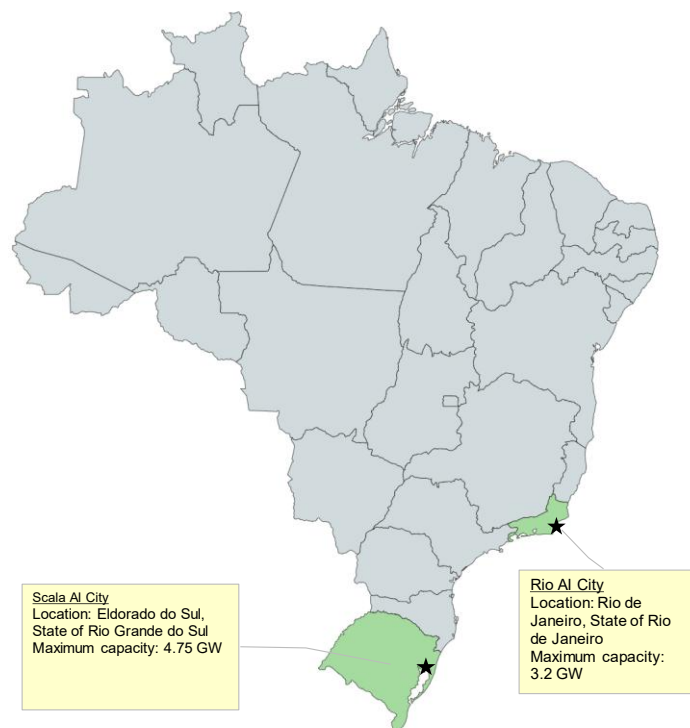
1-3. LARGE-SCALE DC PROJECTS FOR AI WORKLOADS

Among DC investment projects in Brazil, Rio AI City and Scala AI City are notable not only for their scale but also from the perspective of sustainability (Figure 2). Rio AI City is a plan to build a massive DC campus being developed by local IT infrastructure company Elea around the Olympic Park in the city of Rio de Janeiro. Its power capacity will be expanded to up to 3.2 GW by 2032. The campus has space for up to 27 data center buildings and will use 100% renewable electricity under hydropower and solar power purchase agreements (PPAs)³, as well as a fan-based cooling system that does not use water.

Scala AI City is Latin America's largest digital infrastructure project, planned by Scala Data Centers, a subsidiary of DigitalBridge (US), in the southern state of Rio Grande do Sul. The project is expected to include racks of 150 kW or more for AI training workloads. Initial capacity will be 54 MW, but the project can be expanded to up to 4.75 GW. As with Rio AI City, the project is designed to use 100% renewable energy and combine closed-loop cooling-which circulates coolant in a sealed circuit- with air cooling to minimize water consumption.

Hyperscalers⁴ are also increasing investment in Brazil. In January 2026, Microsoft opened two DCs for AI workloads as part of an investment plan totaling BRL 14.7 billion (approximately USD 2.8 billion⁵). AWS already

Figure 2: Large-scale DC projects for AI workloads



Source: Compiled by MGSSI based on various media reports and MapChart

¹ CAGR for 2022–2025 based on BloombergNEF data (calculated by MGSSI).

² Total power demand of projects for which the National Electric System Operator (ONS), the private organization responsible for operating Brazil's power system, had granted connection approval as of September 2025.

³ A power purchase agreement under which a power producer and consumer, such as a company, agree on the price, term, and supply conditions for electricity over the long term.

⁴ A cloud provider that offers large-scale computing power and storage capacity. Typical examples include Amazon Web Services (AWS), Google Cloud, Microsoft Azure, IBM Cloud, and Alibaba Cloud.

⁵ Calculated at USD 1 = BRL 5.3.

operates three availability zones⁶ in the country and plans to invest an additional USD 1.8 billion by 2034. Furthermore, ByteDance, the Chinese parent company of TikTok, has announced a massive USD 37.7 billion investment to build its first DC in Latin America.

2. BRAZIL'S ADVANTAGES AS A DATA CENTER LOCATION

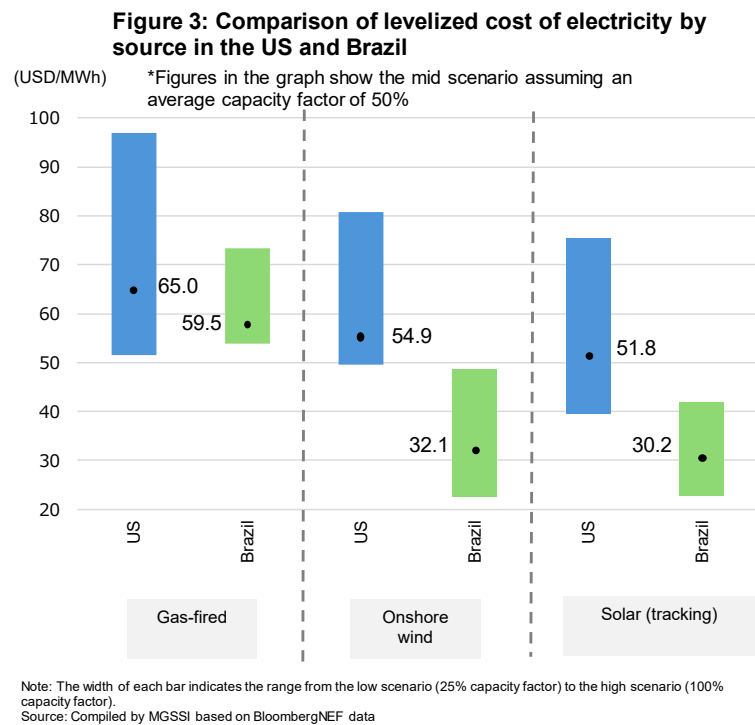
2-1. ABUNDANT, LOW-COST RENEWABLE ELECTRICITY

Brazil is a renewable energy powerhouse, with renewable sources accounting for 88.2% of its power generation mix in 2024. Hydropower alone accounted for 55.3% of the total. Solar and wind capacity is increasing, and renewable energy capacity is expected to continue expanding over the long term, including offshore wind, green hydrogen, and biomass power generation. The Ministry of Mines and Energy estimates that renewable power generation capacity will grow to around 305 GW by 2035, compared with 228 GW in 2025.⁷

The low cost of renewable energy generation is another advantage for Brazil as a DC location. When comparing generation costs by power source with those in the US, by 2030, the price difference for gas-fired power will remain

limited, at USD 59.5/MWh in Brazil versus USD 65.0/MWh in the US, while Brazil will have a substantial cost advantage in onshore wind, at USD 32.1/MWh versus USD 54.9/MWh, and solar, at USD 30.2/MWh versus USD 51.8/MWh (Figure 3).

In the US, renewable power development is not keeping pace with DC electricity demand, leaving operators reliant on gas-fired power. By contrast, Brazil offers stable access to low-cost, low-carbon power, which appears to be driving increased investment by operators, primarily from the US and China.



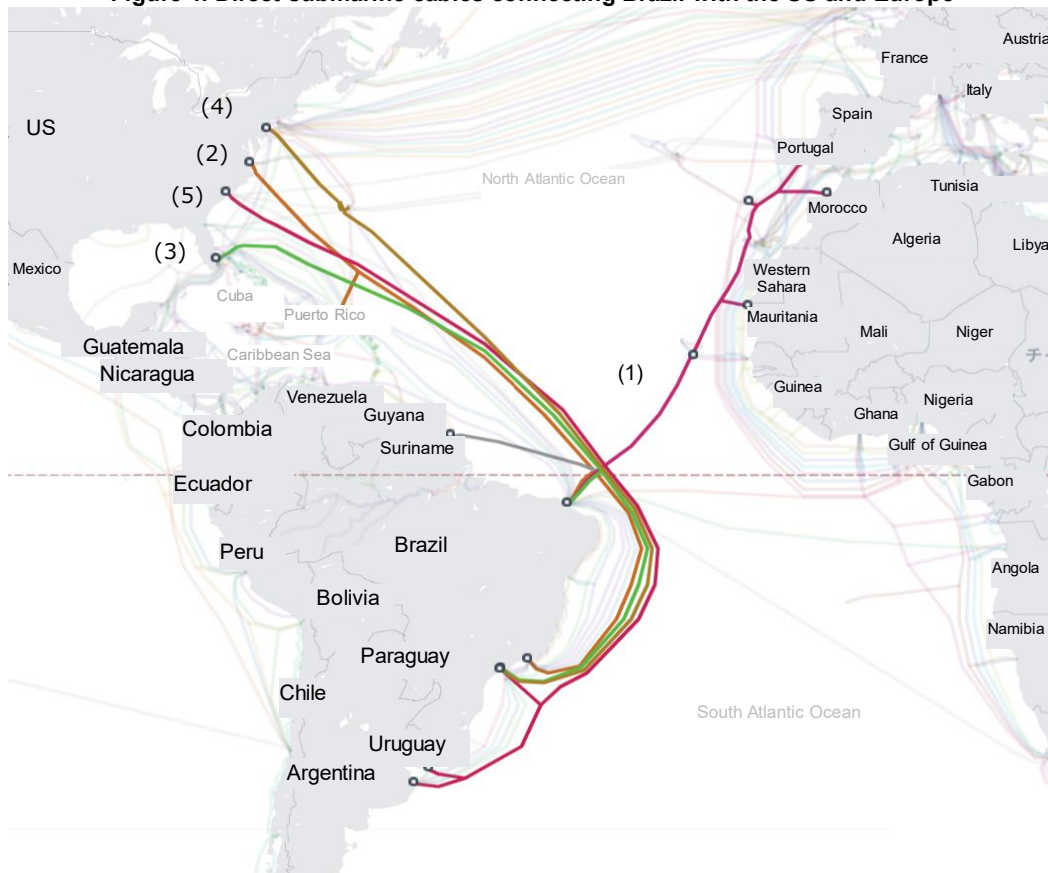
⁶ A unit consisting of physically separate groups of data centers, designed so that cloud services can continue in another zone in the event of a failure.

⁷ Based on the Ten-Year Energy Expansion Plan published by the Ministry of Mines and Energy.

2-2. CAPACITY TO MEET DOMESTIC AND LATIN AMERICAN REGIONAL DEMAND THROUGH SUBMARINE CABLES

In Brazil, data demand is expanding in sectors such as streaming, e-commerce, AI, and Industry 4.0⁸. However, according to the Brazilian Association of Information and Communication Technology Companies (Brasscom), around 60% of domestic data is currently processed overseas. In addition to the need to meet growing domestic demand, Brazil's potential to serve as a data hub for Latin America is another factor attracting investment to the country. Brazil has multiple direct submarine cables connecting it to the US and Europe, enabling stable data communication with low latency when connecting with bases in those regions (Figure 4). A robust international communications infrastructure not only enhances the stability of content connectivity but also facilitates data integration and backups with overseas cloud services. The fact that it is relatively easy to establish an environment suitable for global companies to operate their systems in key regional demand centers serves as an incentive to consolidate data in Brazil.

Figure 4: Direct submarine cables connecting Brazil with the US and Europe



Cable name	Start of operation	Connection points	Owner	Length
(1) <u>EllaLink</u>	2021/6/1	Fortaleza, Brazil – Sines, Portugal	EllaLink	6,200 km
(2) <u>BRUSA</u>	2018/8/1	Fortaleza / Rio de Janeiro, Brazil – Virginia Beach, Virginia, US	Telxius	11,000 km
(3) <u>Monet</u>	2017/12/1	Fortaleza / Santos, Brazil – Boca Raton, Florida, US	Algar Telecom, Angola Cables, Antel Uruguay, Google	10,556 km
(4) <u>Seabras-1</u>	2017/9/1	Fortaleza / Santos, Brazil – Wall Township, New Jersey, US	Seaborn Networks, Sparkle	10,800 km
(5) <u>Firmina</u>	Scheduled for end-2026*	Santos, Brazil – Myrtle Beach, South Carolina, US	Google	14,517 km

*The Firmina subsea cable has been laid but has not begun operation due to delays in obtaining permits and approvals.

Source: Compiled by MGSSI based on various media reports and TeleGeography "Submarine Cable Map"

⁸ Automation and optimization of manufacturing using digital technologies such as IoT and AI.

Further expansion of undersea cables is expected. Digital infrastructure company V.tal has announced the Synapse project, which will lay a new route connecting New Jersey in the US with São Paulo. It is also working with Meta to extend the Malbec route connecting Brazil and Argentina.

2-3. LEGAL, REGULATORY, AND TAX INCENTIVES

The Brazilian government is also developing relevant legal and regulatory frameworks and tax incentives to attract DC investment by leveraging the country's abundant clean energy and international communications infrastructure. This is another factor driving investment.

In 2024, the government announced the Brazilian Artificial Intelligence Plan. This is a national strategy that goes beyond the simple adoption of AI technology and aims to establish “digital sovereignty.” The plan calls for investment of BRL 23 billion, approximately USD 4.3 billion, over four years across five pillars, including research and development, infrastructure development, and human resource development.

Regarding legal and regulatory developments, the General Data Protection Law was enacted in 2018, significantly improving transparency in companies' handling of personal data. In addition, a bill establishing an AI regulatory framework (PL 2338/2023), which stipulates prohibited activities, user rights, operator obligations, penalties, and other provisions related to the development, provision, and operation of AI, was passed by the Senate in December 2024. The bill is still under deliberation in the Chamber of Deputies and has not yet been enacted, making it an urgent priority for providing legal certainty for the domestic expansion of AI-related businesses.

On tax incentives, the government issued Provisional Measure (MP) No. 1307/2025 in July 2025, making DC businesses serving overseas markets in Export Processing Zones (ZPEs) eligible for preferential tax treatment. In September of the same year, it also issued an MP, commonly known as ReData, exempting DC operators and related service providers that meet certain requirements from federal taxes (Figure 5). Discussions are still ongoing over these measures, including their impact on domestic industry and whether natural gas should be included in the scope of tax exemption, and neither has yet been enacted into law by Congress. Nevertheless, the government has expressed its commitment to continue working toward legislation. In addition to exploring alternative measures—such as incorporating tax incentive provisions into the aforementioned AI bill—it has allocated 5.2 billion reais (approximately \$1 billion) for the ReData budget in the fiscal year 2026 budget plan.

Figure 5: Details of tax incentives and developments to date

	Details	Developments to date
Provisional Measure 1307/2025	- Clarifies that the benefits* of the export processing zone (ZPE) scheme, which previously applied only to business operators providing services to goods exporters, will now also apply to business operators providing services to service exporters (covering sectors such as data centers, digital solutions, artificial intelligence, and data processing). - All electricity consumed by companies located in ZPEs must be supplied by renewable energy power plants that began operation on or after July 21, 2025, the date the MP was promulgated.	The deadline was extended in September 2025, but the measure expired in November without being enacted into law.
ReData	- Exempts federal taxes, including IPI (tax on industrialized goods), PIS/Cofins (social contributions), and import duties. - Requirements include securing capacity for the domestic market, use of renewable energy, efficient water use, and R&D investment.	The provisional measure expired in February 2026. A bill to enact the measure into law was approved by the Chamber of Deputies in March but rejected by the Senate.

*Holding foreign currency overseas, exemption from licensing requirements, exemption from federal and state taxes, etc.

Source: Compiled by MGSSI based on various media reports

3. CHALLENGES AND CONCLUSION

3-1. ENERGY INFRASTRUCTURE CHALLENGES AND BURDEN ON LOCAL COMMUNITIES

While Brazil has advantages such as abundant renewable energy and policy support, there are also challenges that could hamper DC businesses. One of these is power grid constraints.

In Brazil, renewable power generation capacity is increasing, but in certain regions and time periods, there are cases where power generation exceeds the capacity of the transmission and distribution grids, resulting in frequent output curtailment.⁹ Under these conditions, an increase in grid connections for DCs, which consume large amounts of electricity, could place additional strain on regional energy infrastructure. Specifically, there are concerns about impacts on local communities, such as more frequent power outages and the passing on of transmission and distribution infrastructure development costs to consumers.

In response, operators are exploring measures such as designing systems to connect their own power plants directly to DCs, developing projects that include dedicated renewable power plants, and constructing substations and transmission lines on their own. In the Energy Expansion Plan (PDE 2035), the government expects investment of approximately USD 24 billion in transmission grid development over the next 10 years to meet electricity demand from DCs and hydrogen production projects. However, it is important to note that if grid development does not proceed as planned, DC operators face the risk of being forced to bear costs such as delayed investment recovery due to postponed openings or the need to independently develop unplanned transmission and distribution infrastructure.

3-2. CONCLUSION

Businesses that add value to electricity derived from Brazil's abundant natural resources could become a new growth industry for the country. At the same time, comprehensive policy measures by the government, including the development of relevant regulatory laws, will be essential to steadily attract private investment and make growth sustainable. In particular, addressing power infrastructure constraints, enacting tax incentives, and clarifying the legal and regulatory framework for AI businesses will be top policy priorities that determine the future development of the DC industry.

⁹ A measure to restrict power generation when electricity cannot be fed into the grid due to factors such as transmission grid capacity constraints.