

NEWSLETTER

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CRYPTO BROKERS WILL BE REGULATED, CENTRAL BANK PRESIDENT SAYS

Roberto Campos Neto said new bill will improve proposals already in Congress

Central Bank President Roberto Campos Neto highlighted the regulatory challenges regarding crypto-assets and said the monetary authority will regulate brokerages in the segment. “We like the bill [making its way] in the Chamber [of Deputies] and the Senate. We will have a third [bill] to improve it,” he said during a public hearing at the Chamber on Tuesday.

Mr. Campos Neto pointed out that “crypto-assets came with blockchain” and that he expects “great gain from this technology.”

The Central Bank is working on developing its own digital currency with encrypted technology, which will be able to combine functionalities similar to those of cryptocurrencies. The digital real project is in its initial testing phase. Before the new version of the Brazilian currency is issued, the monetary authority hopes to have formal authorization to use the new technology.

Regarding monetary policy, the president of the Central Bank stated that “raising interest rates is always bad” and “we end up having to restrain the economy and affect an important part of productivity,” but pondered that living with high inflation can generate a greater dose of monetary tightening later.

“Our job is always to do our best to bring inflation to the target, but with the minimum of destruction to the productive fabric of the economy,” he said. Mr. Campos Neto pointed out that the monetary authority can make two mistakes: go too high or too low. In the second case, according to him, inflation tends to get out of control, which then needs to be corrected. “The last two times this happened, Brazil had to go into recession to correct this,” he said.

Mr. Campos Neto also spoke about discussions regarding the possible change in the inflation target in Brazil but emphasized that the monetary authority’s mandate is to pursue the percentage defined by the National Monetary Council (CMN). “There is a provocation in the sense that inflation in the world is higher, so would it not be necessary to change the target [in the country]? It’s a CMN issue, the Central Bank is one vote of three, our mandate is to follow the target.”

According to him, the current regime brings credibility to the monetary policy. “The target is decided at the CMN. When we see next year’s target, Brazil is closer than other countries. One element of price formation is based on expectations,” he said. Earlier, Mr. Campos Neto had cited a “new literature” on the subject but refused to comment.

In his presentation, Mr. Campos reinforced that more volatile products, such as food and fuel, which are less sensitive to monetary policy, ended up contaminating other items within inflation, which led the Central Bank to respond more forcefully, raising interest rates more. “In the core [of inflation] we take out what is volatile, and

when it is high, it means that the volatile items have contaminated extensively. Today the cores run at 10%, we see several chains with contamination.”

Mr. Campos Neto also pointed out that the food and commodities shock, worsened by the war between Russia and Ukraine, is positive for the country, which is an exporter of these products but creates a social problem. About economic activity, he said he expects the projections for this year’s GDP growth to be revised upwards.

Source: Valor International
<https://valorinternational.globo.com>

06/01/2022

EU UNWILLING TO EASE CONTROL ON BRAZILIAN CHICKEN

Official tells Valor measure is about wrongdoings, not deforestation

Five years after imposing stricter controls on the sales of Brazilian chicken meat, the European Union has signaled that it has no plans in sight to suspend the measure, despite persistent demands from the Brazilian side.

In Brazil, the complaint is that the EU’s Directorate General of Health (DG Health) is, in practice, linking sanitary and phytosanitary measures (SPS) to deforestation issues, delaying the search for a solution to the problem, which affects millions of dollars in business.

To Valor, the EU said that “this is not correct”. According to a senior European official, “the current measures [of strengthened control over meat] are related to cases of fraud involving authorities and to the results of successive audits that have identified repeated deficiencies that demonstrate the unreliability of the Brazilian certification system.”

The official recalled that the strengthened control — 100% documents and 20% through physical and laboratory inspection (in Brazil and the EU), something unusual — was adopted in 2017 after the operations “Carne Fraca” and “Trapaça” in Brazil, which had negative results in the EC audits in the segments of meat and fish.

The source noted that while the fraud scandals involved officials at the Agriculture Ministry in illegally exporting cargoes to the EU and other countries, the 2017 audits showed “that the deficiencies identified by previous audits had not been corrected, despite the promises made.”

According to the EU, “in these circumstances the protective measures cannot be lifted and the authorization of additional sellers (re-authorizing the pre-listing procedure), additional products (pork, dairy, eggs) or additional production areas (for export) cannot be considered until a follow-up audit shows that corrective measures have been implemented to rectify the deficiencies and prevent fraudulent export practices.”

“For the EU, only a favorable outcome of an audit in Brazil will allow the European Commission to propose to the 27 member states to lift the current control on Brazilian chicken meat.” The commission has included an audit in Brazil in its work program for 2022. However, it has already warned that the feasibility of doing it “will depend on the evolution of the audit backlog caused by the pandemic and the need to ensure the safety of auditors in the current epidemiological situation of Covid-19.”

The strengthened control causes an additional cost that is ultimately discounted from the price of chicken. The EU mentions this “lack of confidence” in the Brazilian sanitary certification system (and despite all the controls), but also has Brazil as the supplier of 20% of all the chicken meat it imports.

Between January and April this year, the block imported 71,700 tonnes of Brazilian chicken meat, 27.8% more than in the same period last year, according to the Brazilian Association of Animal Protein (ABPA).

The finding, both in Brazil and in Europe, is that there has been a deterioration of the dialogue with DG Health of the EU. The situation has worsened since November, when Brazil denounced the EU at the World Trade Organization (WTO) because of “discriminatory sanitary controls for the detection of salmonella in salted chicken and turkey meat with pepper.”

There has been a “gigantic logjam” in bilateral talks ever since, deepening the sanitary mess started under the previous administration. In 2017, soon after the announcement of “Carne Fraca”, the EU sent an audit team to Brazil, with Irish veterinary inspectors, despite all the pressure that European producers were putting in the opposite direction.

The Europeans inspected several businesses and returned with a good impression. A draft of a positive report was ready when “Trapaça” broke out, involving food processing giant BRF and third parties laboratories that controlled the exported chicken meat.

The Irish vets felt betrayed, as they were not informed that this additional Federal Police operation was underway. Officials from the Ministry of Agriculture knew, as they were following the Federal Police, but apparently were forbidden to inform them. The Irish inspectors were left with their reputation threatened, since they advocated a return to normal relations with Brazil.

The situation was made worse when the then Minister of Agriculture, Blairo Maggi, did not remove BRF from the list of exporters even after the scandal involving the company. This forced the EU to issue a specific regulation removing all the company’s units, and a few others, from the list of exporters to the European market, which is unusual. Normally, Brussels suggests the blockade and the exporting country itself removes the meat packing plant from the list, which makes it easier to return.

After this, BRF, which has long ensured that there were no wrongdoings in its products, filed a complaint at the EU court disputing the regulation that barred its sales. It failed and was banned from exporting for human consumption, while entering in the radar zone of European surveillance. On top of that, the Europeans don’t even want to schedule meetings to talk about the suspension of the strengthened control.

Source: Valor International
<https://valorinternational.globo.com>

06/02/2022

INFLATION, SUPPLIES ARE L’ORÉAL’S PRIORITIES

Company has double-digit growth in Brazil and gains market share with consumers loyal to the brands

Brazil was the first country that Alexis Perakis-Valat, global CEO of L’Oréal’s division for the general public, visited when he took over the position five years ago. Last week, Mr. Perakis-Valat returned to Rio de Janeiro and São Paulo. Even though sales have resumed to pre-Covid-19 levels, the scenario is different from before 2020. Global inflation and supply issues are of concern. He says the business in Brazil has had double-digit growth and it is gaining market share in an environment of consumers loyal to the brands.

The large public division includes Niely (a national company incorporated into the French group in 2014), Colorama, which focuses on nails, and Maybelline, of makeup. The products are found in retail channels, such as supermarkets, pharmacies, and cash-and-carry. In 2021, the area was responsible for 37.9% of L’Oréal’s global sales, behind only the luxury segment, which accounted for 38.2%, the company says. Considering the result as a whole, sales in Latin America grew 20.6% last year. The company does not reveal the figures for Brazil.

“In the medium and long term, we are extremely confident in the future of our division, both globally and Brazil. The market has a lot of potentials to develop. Brazilian women are looking for more transparency, performance, and sustainability. And, as in the rest of the world, the digital [channel] has accelerated the knowledge of

consumers,” said the executive, in an interview with Valor. L’Oréal has less than 10% of the local market share, but the country is the fourth-largest beauty market in the world.

The executive says that L’Oréal’s main objective is to “develop markets”. A current example are the serums — cosmetics for the face that have a light texture and fast absorption. There is still a low percentage of Brazilian women who use this kind of product, says the executive. “Our work in our division is to spread the serum. Explain why to use it and how to use it. This develops the market because it is an additional gesture. And when we develop the market, it grows, and we want to gain market share.”

The current environment increases the complexity of the business. Inflation, a legacy of the large injection of liquidity by governments in Covid’s peak, is new in many countries where the multinational operates. There is not yet a long history to analyze the consumption behavior in those places, but Mr. Valat says that in the beauty market people are inclined to pay a little more as long as the offer is better. In Brazil, although the subject is not new, inflation is currently eroding the income of the local population.

In the mass market, the final prices are fixed by the retailers. However, the multinational has tools to trace price scenarios because of customers’ behavior. The goal is that the values suggested to retailers can be absorbed by the consumer public.

According to Mr. Valat, the beauty company has dealt very well with the issue of global supply chain problems, but this issue requires more effort than before the pandemic began. “We spend a lot of time on this. The situation is complicated, but it is evolving every day. I hope the scenario will get better, but it is challenging,” he says.

Current efforts involve more intense monitoring of raw materials and greater flexibility of the company in the search for supply alternatives and diversification of supply sources. The goal is to reduce dependence on just one part of the world.

Another focus of increasing attention worldwide is ESG practices. Diversity, gender equity and inclusion, and causes such as tackling sexual harassment on the street are among the company’s focal points. And L’Oréal aims to be an industry leader on issues related to sustainability. There are, for example, initiatives to reduce water use in factories.

In addition, alongside companies like Unilever and Natura, the company is developing an industry-wide environmental impact assessment and a sustainable scoring system for cosmetic products. “Consumer demand for more sustainable products is growing. Younger generations are leading this movement. We see concerns about impacts in Brazil as well.”

Source: Valor International
<https://valorinternational.globo.com/>

06/06/2022

SINQIA HAS R\$200M FOR GROWTH PLANS

Strategy now is to invest in front office solutions

Even after spending R\$420 million on the purchase of NewCon in December and R\$79.5 million on Lote45 in January, Sinqia continues to seek new acquisition opportunities to expand the range of software services it offers to financial firms. The focus now, however, is on repositioning the business toward front-office solutions, directly linked to the user interface.

“We want to move out of the kitchen and go to the restaurant window,” said Luciano Camargo, co-founder of Sinqia, who will step down as chief operating officer and take over as chairman. “We will focus more on services

such as onboarding, digital signature and digital billing, which are directly related to the financial firm's relationship with the customer."

According to the company's executives, there is still R\$200 million in cash for new acquisitions, which will probably be made in the second half of the year. The first half, according to CEO Bernardo Gomes, was the moment to consolidate recent acquisitions, integrating new operations and focusing on increasing revenues.

"This first semester was very much about digesting the acquisitions we made, about understanding how the market looks. We have cash to make another round [of acquisitions] in the second half and continue at this pace. If the moment calls for it, we may also consider making an acquisition in the future," he added.

Mr. Camargo points out that Sinqia is currently in talks with 200 companies that may potentially be bought. "When we see market trends, we speed up or slow down the conversation with this or that company. It is not a guarantee that it will always work, but it has worked so far."

To make this strategic repositioning towards front office, the company hired Ricardo Pacheco, a former executive at Itaú, who intends to bring the experience of those who were on the other side of the counter to help Sinqia understand the main needs of banks in a much more competitive environment and in which offering a good digital experience has become a basic necessity for the sustainability of the business.

"We are still scratching the surface, taking advantage of opportunities within the verticals we already work in. The next step is to integrate those solutions. Now it is about generating more value than each company separately," he said.

Sinqia currently has four main verticals of service: banking, consórcio (buyer's club), funds and pension plans. Some of its best-known solutions are related to enabling operations, automation of operational processes, accounting controls and interconnection with settlement institutions.

Mr. Gomes comments that there are three main reasons that lead them to make an acquisition. The first is to enter segments in which Sinqia does not yet operate. The second is to gain market share in segments in which it already operates. And the third is to seek companies that offer solutions capable of "horizontalizing" the business that the company already has, integrating the different existing solutions.

"If I take the pipeline of companies we are in contact with, 30% are new segments, 30% mean gaining market share in the segments we already have, and 40% are horizontal opportunities," he said, revealing that the next acquisition has greater chances of being in this third group.

Besides the integration of solutions, one concern of the executives is to keep their attention focused on fashionable technologies to avoid being left behind in the future. Mr. Pacheco, for example, says he has experience with technologies such as artificial intelligence and blockchain, which are on Sinqia's radar to expand its portfolio of solutions. In the case of artificial intelligence, the first move in that direction was made by buying Simply in March 2021.

"It does facial recognition and onboarding to ensure that people signing up are who they say they are, keeping all profile data so to reduce risk of fraud. All of this today is already done with artificial intelligence. I hope that in the future we can help the client not only with a report about what has already happened, but also about what is going to happen," he said.

Regarding blockchain, on the other hand, the company does not have specific advanced initiatives yet, but the executives emphasize that they are monitoring startups working with the technology to prospect opportunities. Sinqia has a Corporate Venture Capital (CVC) program called Torq, in which it looks for startups with business models that complement its products to invest in.

In the first quarter, Sinqia reported net revenue of R\$138.9 million, up 103.5% year over year. It was a record number for the company, which means R\$555.4 million in annualized values. The adjusted EBITDA advanced 191.7% to R\$36.2 million. Net income was R\$9.7 million, a 12.4 times expansion in the annual comparison.

Mr. Gomes recalled that in 2013 the company, formerly called Senior Solution, held an IPO with revenues of R\$40 million, which seemed very low for a company that wanted to be traded on B3. “Today we have almost R\$600 million in annualized revenue with EBITDA of R\$144.9 million,” he said.

For the next two years, the cofounder and CEO predicts that the company could double in size. “What we are talking about is to be capable of doubling again in two years in terms of revenue, just as we did in the past, when we increased threefold our size from 2019 to 2021.” Mr. Camargo believes that the 10% market share that Sinqia has today guarantees a “giant” potential for expansion from now on.

Sinqia’s average compound annual growth since 2015 has been around 30% per year.

Source: Valor International
<https://valorinternational.globo.com/>

06/06/2022

UNIPAR TO INVEST R\$130M IN NEW PLANT IN BAHIA

New plant with capacity to produce 10,000 tonnes of chlorine a year will be built at the Petrochemical Complex of Camaçari

Unipar, the largest producer of chlorine and caustic soda and one of the main PVC manufacturers in South America, will invest R\$130 million in a new plant, in Bahia. This raises to R\$230 million the disbursements unveiled since the end of last year by the company to expand capacity.

The new plant, with a capacity to produce 10,000 tonnes of chlorine a year, will be built at the Petrochemical Complex of Camaçari (Bahia) and is expected to start operating in the first half of 2024. It will meet the growing demand for hydrochloric acid, sodium hypochlorite and caustic soda driven by the new basic sanitation legal framework.

“We believe in the sanitation framework as one growth driver for the market. There have already been several approvals [of projects] and auctions, and there will be more,” CEO Mauricio Russomanno told Valor.

In chlorine, the company’s installed capacity will jump to 715,000 from 680,000 tonnes/year with two expansions – in Santo André (Greater São Paulo), with an investment of R\$100 million, the production of chlorine, caustic soda and hydrochloric acid will be increased by 15% as from the second half of 2023.

With the new injections, the company starts to shape a new growth cycle supported by the perspective of increasing demand for chlorine and its products driven by the new legal framework for basic sanitation in Brazil. The plant in Bahia is the first greenfield project within the company’s geographic expansion strategy, whose last major leap was taken at the end of 2016, with the purchase of the PVC plants of the Solvay group (Indupa) in Brazil and Argentina.

The company had already signaled the intention to have a plant in the Northeast region, in the wake of the high investments necessary for the region to reach the levels of universal access to water and sewage services by 2033 foreseen in the framework.

Bahia is the first step in the region, Mr. Russomanno said. “We are looking at Pernambuco and the north of the region, at states such as Rio Grande do Norte and Maranhão,” he said.

The construction of new plants and potential acquisitions, possibly branching into adjacent businesses, are on the company’s radar.

As Valor reported, Unipar studied the purchase of the chloralkali plant of Compass Minerals in Igarassu, Pernambuco, formerly Produquímica, in the first half of last year, but the deal fell apart. Compass Minerals ended

up selling the plant, in addition to the chemical units for water treatment in Marechal Deodoro (Alagoas) and Suzano (São Paulo), to Cape Participações for R\$236 million. These units will be operated by Chlorum Solutions.

According to Mr. Russomanno, Unipar may seek financing to execute the project in Bahia, but it has enough funds on hand to build the new plant. At the end of March, the company had more cash and cash equivalents than gross debt, with a positive balance (net cash) of R\$432.9 million.

Source: Valor International
<https://valorinternational.globo.com/>

06/07/2022

GOVERNMENT PROPOSES REDUCING TAX RATE ON FUEL TO ZERO

States would be compensated, according to plan; measure would be in place by December

In another effort to try and lower inflation and reduce fuel prices — less than four months before the election — President Jair Bolsonaro proposed Monday to reimburse states if governors agree to reduce to zero sales tax ICMS on diesel and LPG (cooking gas).

In addition, the federal government has committed itself to cut to zero social taxes PIS and Cofins and the federal tax Cide levied on gasoline and ethanol. The package is a compensation for Congress to pass the bill that curbs state taxes on fuel, energy and telecommunications to 17%.

The tax breaks and compensation will be proposed through a constitutional amendment proposal (PEC) to be issued by the federal government, with defined financial and time limits. According to sources within the economic team, the total cost will be around R\$40 billion.

Of this total, R\$25 billion — concerning the transfer to state governments for the loss of revenue from the ICMS tax on diesel oil and cooking gas — will be kept outside the spending cap. The remainder — around R\$15 billion — derive from the total exemption of PIS/Cofins and Cide on gasoline and ethanol. Those federal taxes have already been reduced to zero, previously, for diesel and LPG.

As for the duration of the measure, the PEC will say that the measures will be in force between July 1st and December 31st, 2022. Nevertheless, the government is confident that the increased revenues from oil royalties and dividends from Petrobras will contain impacts on the primary result. Economy Minister Paulo Guedes said the effort will be “fiscally responsible.”

“It is an extraordinary transfer of funds. It has a defined time, until December 31, and a defined value, it will be clear that this is fiscally responsible,” he pondered. Mr. Guedes also explained that there are extraordinary revenues not yet released in the budget, and that this transfer to the entities will be limited to these revenues. “In the same way that there must be a spending cap, there must be a tax cap,” he said.

Mr. Guedes called for a joint effort on behalf of a reduction in fuel prices that protects the population. “If the economy became strong again and tax collection is increasing, we are behaving in a way to transfer this to the population. Everyone has to collaborate. States and municipalities are all in the black, a situation they have never been in before,” he said. “We are renewing our commitment to protect the population with the cooperation of federal entities, Senate and Chamber.”

The announcement of the package was made by the president in the presence of government ministers and the speaker of the Chamber of Deputies, Arthur Lira (Progressive Party, PP, of Alagoas), and Senate President Rodrigo Pacheco (Social Democratic Party, PSD, of Minas Gerais), who also endorsed the measure.

In practice, the package is a way for the Executive branch to pressure governors to accept an agreement on the issue. This is because allies of the president have shown concern about high inflation, which tends to impact the approval of the president during the election campaign.

With this proposal, President Bolsonaro admitted expecting an “agreement” in the Senate for the approval of the so-called complementary bill (PLP) 18/21, already passed by the Chamber of Deputies and making its way in the Senate, which establishes a cap for the collection of ICMS for items considered essential, such as fuel, electricity, telecommunications and public transport.

“The government has decided to move forward with the reduction of the tax burden for Brazilians — on diesel and cooking gas, if the governors understand that it is possible to reduce ICMS to zero, we will reimburse them for what they fail to collect. As for gasoline and ethanol, the federal government is willing to reduce PIS/Cofins and Cide to zero,” Mr. Bolsonaro said.

Mr. Lira also admitted that the negotiation is primarily aimed at solving the problem of inflation, which worries Mr. Bolsonaro’s allies. “We are concerned about reducing the impacts of inflation, the crisis caused by pandemic and war. The Chamber is sensitive to the government’s effort,” said Mr. Lira before sending a message to senators. “We hope that the Senate has sensibility in the approval of PLP 18 [which limits ICMS to 17%]. After that, we will deal with the PEC on the reimbursement of the states,” he said.

The Senate president said he expects a consensual solution and through dialogue to reduce the ICMS on fuels, but reiterated the existence of the states’ concerns and did not talk about a date to vote on the bill that imposes a 17% ceiling on gasoline and diesel oil, among other items.

According to him, the government’s initiative highlights the concern of the branches of government with the prices of fuel and food. “It is a very serious problem,” he said. Mr. Pacheco recalled that the state governments took to the Senate several amendments to the PLP 18: “Within the dialogue, which is very broad in the Senate, we will seek consensus on all interests, also listening to the states. We welcome the demands of the federal government and will take them to the senators for analysis,” the Senate president added.

São Paulo’s Treasury Secretary Felipe Salto defined the announcement as “a bad joke.” “The states don’t have any guarantee,” he said. Mr. Salto questions the source of funds for such compensation. “The only revenue cited does not exist: the Eletrobras concession. How will they reimburse [states] with the cap there?” he said.

Another criticism from the state secretary is that first the bill that establishes the ceiling on the collection of ICMS on fuels would be approved, and then a PEC would be sent to the states to account for the reimbursement.

“The losses from PLP 18 will come and the PEC will be delayed. Even if approved, nothing guarantees the reimbursement, according to the announcement,” he said. According to him, the measure would generate losses of R\$14.4 billion by locking the rates at 17% — 18% in the case of São Paulo.

(Anaïs Fernandes contributed to this story.)

Source: Valor International

<https://valorinternational.globo.com/>

06/07/2022

GLOBAL ECONOMIC OUTLOOK BOOSTS SHARE BUYBACKS IN BRAZIL

May is second-busiest month since 2020 in Brazil, with 21 companies launching such programs

Faced with volatile markets that are sensitive to the global economic scenario, stocks are going through a strong correction in 2022 and companies in several industries, in Brazil and abroad, are launching share buybacks as a result.

In Brazil, share buyback announcements accelerated in May, with 21 companies starting buying back shares, almost four times the number seen in the same month of 2021. This reflects the Ibovespa – Brazil’s benchmark stock index saw the second-worst performance since the onset of the Covid-19 pandemic by falling 10.1% in April. May was still the second month with the most open programs since March 2020, when the coronavirus triggered an unprecedented global crisis.

This year, 57 companies unveiled buyback programs, more than half of the entire 2021 volume of 108 announcements. The number is 63% higher than the number announced between January and May last year, which had most of the openings concentrated in the second half of the year.

If completely fulfilled, the buyback programs can total R\$72 billion, taking into account the current price of the companies. The operations announced in the month alone cover a volume that may exceed R\$17 billion if fully executed. Gerdau, CSN, Suzano, JBS, Bradesco, XP, Cosan and Hapvida are among the groups that started buyback programs in May.

This is not a local phenomenon. Share buybacks in the United States are expected to reach a record of \$1 trillion in 2022, as companies see their shares depreciating between 15% and 30% in the year to date.

Guilherme Tiglia, a partner and analyst at Nord Research, cites escalating global inflation, the Russia-Ukraine war, the Covid-19 pandemic, and reduced growth in major economies such as the United States and China among factors driving buybacks.

“At times like this, when we see the [financial] market moving sideways and concerned about the global economy, a window of opportunity opens up for companies to do buybacks. It’s a market moment, with discounted stocks,” he said.

He points out that, in the local scenario, there is still the impact of the high interest rate, which reflects strongly on variable income due to the migration of investments to fixed income.

Besides the drop in stock prices, the strong cash reserves of some Brazilian companies — after higher revenues in 2021 — contributed to driving buyback programs last month, said Gabriela Joubert, chief analyst at Inter.

“Companies, especially those linked to commodities, which have revenues in dollars, have a cash surplus. They need to allocate this money. After so many [announcements and payments of] dividends, buyback is also an alternative,” Ms. Joubert said, stressing that stock buybacks are another way of returning profits to shareholders. The analyst notes that, for the investor, the buyback plan contributes to containing share losses, at first. “We are entering a bear market, so it makes sense for companies to announce buybacks,” she said.

Vale, at the end of April, paved the way for more robust programs with the announcement of a buyback of up to 500 million shares — equivalent to more than R\$40 billion — expected to continue until the second half of next year.

In a conference call with analysts held after the announcement of the program, the chief financial and investor relations officer, Gustavo Pimenta, said that the share buyback “is the best investment” the company has, adding that this does not mean the mining company will not pay extraordinary dividends.

“It will depend on the cash flow. We can do both [dividend and buyback], but the buyback has a great prospect,” the executive says.

Ms. Joubert says she disagreed with the buyback announced by the company in October last year, of up to 200 million shares — a program finished this month with the acquisition of all shares for the opening of the current buyback — since it could have been converted into dividends for shareholders.

According to her, Vale wanted to send a message of confidence in the company. “Companies continue to pay dividends, but they also buy shares, sending the message that they are investing in themselves. The message is unanimous. I have surplus cash, I will pay you dividends. But I will also buy shares of my company and do the same, shareholders,” the analyst with Inter said.

Mr. Tiglia, with Nord Research, considers that the share buyback is also a benefit and that, at that moment, it was an allocation of funds that made sense for the company’s strategy.

“There is no such thing as a better or worse proceed. I believe that, at that moment, Vale understood that its shares were cheap, which is consistent with the robustness of the program, and the buyback was the tool that made the most sense in that scenario,” the analyst said.

Daniel Sasson, a commodity analyst at Itaú BBA, said that the program is in line with Vale’s recent positioning, in which it sees no need for investments and expansion in the coming years.

“Therefore, the company is using this surplus by returning cash to shareholders. Another issue is that Vale shares are cheaper compared with its global peers. The company sees this, that stocks are cheap,” he said.

Mr. Tiglia says that Vale shares are at a level below what they could be, even with gains of more than 17% in the year.

Some programs launched in May, weeks after Vale, have the potential of reaching R\$1 billion each, including Suzano, CSN and Gerdau.

Gerdau’s chief financial and investor relations officer, Rafael Japur, evaluated that the repurchases of the company and Metalúrgica Gerdau reflect the steelmakers’ cash generation capacity. “We understand that the shares are undervalued in recent months and that the discount is important concerning our peers in North America. That’s why we started the program,” Mr. Japur said.

Ms. Joubert, the executive with Inter, however, highlights the post-purchase and wonders about the company’s goal. “We need to pay attention to what the company will do with that number of shares it bought. Will it cancel it, will it keep it, or will it do a secondary offering to raise money again?”

Mr. Tiglia, the analyst with Nord, said that buybacks can reflect negatively on stock liquidity. “There are programs that don’t change, while others mess a lot with liquidity,” he said. “At the end of April, Vale, for example, had 305 million in treasury stock. The natural path is that it cancels those shares in the coming months and the market is already expecting this,” said Mr. Sasson, with Itaú BBA.

Source: Valor International
<https://valorinternational.globo.com/>

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CELLERA TEAMS UP WITH FERRING FOR INNOVATIVE MEDICINES

Agreement includes production, commercialization of gastroenterology product

Brazil’s Celleria Farma has signed an agreement with the Swiss laboratory Ferring for the production and commercialization of an innovative medicine for gastroenterology healing, in the first step of a partnership that may be more comprehensive in the future.

For Celleria, whose controlling shareholders are businessman Omilton Visconde Júnior and private equity manager Principia Capital Partners, this first project represents technology transfer, occupation of the installed capacity of the Indaiatuba plant, in São Paulo, and a new jump in revenues, with the right of the first choice for commercializing the new drug.

Ferring, which is present in 56 countries, now has local production of one of its drugs and will use Celleria’s broad bases to take it to health professionals and pharmacies throughout the country. The biopharmaceutical company, specialized in fertility, gastroenterology and urology, has placed one of its 12 innovation centers in Brazil and wants to advance in research and development locally.

The new drug — a gel that combines two existing molecules to accelerate the healing process of anal fissures and control pain — was developed in the country, at Ferring’s center. In future projects, Celleria may even join the multinational at this stage.

The drug will enter phase 3 of clinical studies in 2023 and may reach the market in mid-2025. So far, investments in the product have reached between R\$15 million and R\$17 million, and more R\$5 million are likely to be spent until registration at the health regulator Anvisa. In the launch phase (“go-to-market”), investments are estimated at R\$50 million. “The product will be important for both companies,” said Rafael Suarez, Ferring’s CEO in Brazil and leader for Latin America.

According to the multinational, the choice of Celleria as a partner took into account the quality of its productive assets, which meet the requirements of international agencies, and the willingness to invest in innovation. Besides that, the proposal is that the drugs developed by the partnership can be internationalized without the need to repeat clinical studies abroad, said Renato Faro, head of R&D and regulatory affairs at Ferring.

Omlton Visconde Júnior, CEO of Celleria, says that the Brazilian pharmaceutical company bets on partnerships to grow, at the same time avoiding exposure to commoditized products, in line with what Ferring has to offer. With operations in the central nervous system (CNS) and gastroenterology fields, the pharmaceutical company has some participation in pediatrics and is evaluating the entrance into orthopedics. "Our focus is innovation," he says. Mr. Visconde Júnior became known for his sequential ventures in the health sector in the country. Among other moves, he sold Biosintetica to Aché in 2005 and, years later, he sold Segmenta, of hospital serums, to Eurofarma. In 2017, he and his private equity partner formed Celleria, the result of the purchase of Instituto Terapêutico Delta and the company MIP Brasil Farma.

For this year, the Brazilian pharmaceutical company is expected to reach R\$500 million in revenues, 10 times more than in 2017. The plan, according to the businessman, is to seek an IPO when the company reaches the R\$1 billion threshold, in three to four years.

Ferring, formed in 1950, belongs to a single owner and has been in Brazil since 1985. Worldwide, the group has revenues of \$2 billion and invests 20% of its revenue per year in R&D, said Mr. Suarez.

Source: Valor International
<https://valorinternational.globo.com/>

06/07/2022

REVENUE FROM EXTRACTIVE INDUSTRIES TO DOUBLE BY 2030

Oil, natural gas and iron ore will generate higher-than-expected collection, according to calculations by think tank Ibre/FGV

The federal gross collection of revenues related to extractive industries – especially oil, natural gas and iron ore – is seen as reaching an annual average of 2.11% of GDP between 2022 and 2030, more than double the average rate of 0.92% of GDP per year seen from 2011 to 2020. The calculation by economist Bráulio Borges, a researcher at Fundação Getúlio Vargas's Brazilian Institute of Economics (FGV/Ibre), conservatively considers a barrel of oil traded at \$65. The additional collection would total R\$1.03 trillion at constant values from this year through 2030 compared to the previous decade.

Mr. Borges ponders that the scenario involves volatility and contingencies, such as those related to oil prices and the production curve. He also highlighted that these additional revenues have not yet been considered in the longer-term fiscal projections, whether internal or produced by international organizations.

According to his analysis, in 2021 the extractive industries will expand gross federal revenues by around 1% of the GDP. With that help, that federal revenue reached 22.3% of GDP, up from 21% on average from 2014 to 2019. In the 12 months through March 2022, he said, the total federal collection reached 23.2%, which indicates a new increase this year. The recent movement was driven by the high international prices of these commodities impacted by cyclical factors.

Even as prices expected for the next two years are adjusted, these items are expected to continue increasing tax collection until 2030, Mr. Borges said. In this longer term, the revenues from extractive industries will be based on the increase in production volume and driven by already defined taxes, which is expected to gain ground due to the increase in the share of oil and gas extraction under the sharing regime.

Experts warn that the high volume of revenue coming from this temporary change, although lasting and based on finite resources, should not be seen as a panacea. This additional revenue, they point out, requires careful allocation by the federal government.

According to Mr. Borges, even in a scenario of a lower oil price, of \$45 a barrel of Brent, the federal gross revenue from the same activities would yield an annual average of 1.68% of GDP from 2022 to 2030, still more than 0.7 percentage points above the average annual rate seen between 2011 and 2020. Considering a barrel at \$85, the federal revenue would be 2.6% of GDP on average annually.

Mr. Borges's calculation shows that in 2021 the total revenue from royalties, special participations, dividends paid by Petrobras to the state and taxes paid by the extractive industries, except social security contributions, totaled 1.85% of GDP, higher than the average of 1.06% of GDP from 2018 to 2020 and 0.93 percentage point above the annual average from 2011 to 2020. The performance largely explained the jump in total federal gross revenues in 2021.

Revenues from royalties and special participations grew to 1.08% of GDP in 2021 from 0.76% the year before. Petrobras's dividends reached 0.24%, the highest rate relative to GDP since 2001. Federal taxes complete the picture. Revenue from taxes and contributions from extractive industries, including oil, yielded 0.52% of GDP for the state in 2021, almost double the 0.27 percentage point seen in the previous year.

The revenue projection, Mr. Borges said, shows that the extractive industries will continue to increase the state's gross revenue until the end of the decade. The expected increase in production, especially of oil, natural gas and iron ore, is expected to contribute to this. These three commodities represent virtually 89% of the royalties collected from natural resource exploration in Brazil. The projections are included in a study that is the subject of an article by economist Luiz Guilherme Schymura, to be published by Ibre in the magazine "Conjuntura Econômica."

In the study, Mr. Borges considered the 10-Year Energy Expansion Plan 2031, in which Energy Research Company (EPE) projects growth of little more than 80% in the production of oil and gas by 2030, with an increase from pre-salt exploration. This comes in the wake of production growth of 50% in the last decade and expansion of 150% in 20 years. Iron ore production is expected to grow 30% by the end of the decade, considering mining giant Vale's estimates.

Another factor that will contribute to revenue growth is the so-called "profit oil," a still small collection for the state established when the sharing regime was created, in 2010. That meant an increase in taxation on the extraction of oil and natural gas, Mr. Borges said. As production subject to the sharing regime is expected to increase, the revenue from profit oil, almost insignificant until 2021, is likely to grow until 2030.

Based on data from PPSA, the state-owned company created to represent the state in the sharing contracts, Mr. Borges projected the impacts on revenue. "It is worth saying that two-thirds of Brazil's oil extraction in 2030 is expected to be under the sharing regime."

Royalties, special participations, Petrobras dividends and revenues from profit oil combined are expected to reach 1.7% of GDP between 2022 and 2030 on average. Last year, it was 1.33% of GDP. In the 10 previous years, the annual average was 0.7%. For 2030, the projection is 2.25% of GDP – considering, as previously mentioned, a barrel of Brent crude oil at \$65. The collection of federal taxes paid by extractive industries is expected to add 0.4% to 0.45% of GDP on an annual average from 2022 to 2030, totaling 2.11% of GDP in this period.

The most recent rise in the contribution of extractive industries to the state's gross revenue is due in large part to the surge in commodity prices, under the impact of the pandemic and, more recently, the shock of the Russia-Ukraine war. Because of this, Mr. Borges said, the expected adjustment in prices is likely to drive down tax collection linked to extractive industries over the following two years, with a minimum level projected for 2024 at 1.6% of GDP.

From 2025 on, with the increase in domestic production of oil and gas, these revenues are likely to rise again and reach 2.71% of GDP, considering the baseline scenario with Brent crude at \$65 a barrel.

Even with the energy transition, Mr. Borges said, oil demand is expected to still be high for 15 to 20 years, and "Brazil is well-positioned to meet this demand." At the same time, he says Brazil has the third-largest nickel reserves in the world, a production that can grow a lot if the energy transition accelerates and boost royalty collection. This was not included in the projection, he said.

Mr. Borges points out that this commodity windfall brings volatile revenues based on finite natural resources. “A number of factors can make oil extraction in Brazil grow more or less,” he said. “The additional revenue will apparently materialize between now and the end of the decade, but it is not necessarily eternal. The projections, in fact, are that in the decade following 2030 Brazilian oil production will start to fall.”

Source: Valor International
<https://valorinternational.globo.com/>

06/07/2022

OECD TO ANALYZE BRAZIL'S PRACTICES, POLICIES

Deforestation, trust in institutions among issues to be examined before admission

The Organization for Economic Cooperation and Development (OECD) will examine from now Brazilian practices and policies in negotiations to evaluate the country's admission to the organization. The assessment will range from trust in institutions to deforestation.

Valor found that the roadmap with the terms, conditions and process for Brazil's ingress, has already received the green light from the OECD Council of Representatives, and will now be formally approved by the ministers of the 38 member countries on Thursday in Paris.

The way in is identical for the five membership candidates — Peru, Bulgaria, Croatia and Romania besides Brazil. Argentina had its invitation frozen as Alberto Fernández's government did not commit to the organization's values under the conditions the current members demand.

The list of core principles for technical evaluation in the different OECD committees is long and includes new recommendations approved recently by the entity.

A new subject for which Brazil and the other four candidates will be evaluated, in the field of governance, is people's trust in their institutions. For the OECD, trust is the basis of the legitimacy of public institutions and of a functioning democratic system, and is crucial to maintaining political participation and social cohesion.

Trust is important for the success of a wide range of public policies that depend on behavioral responses from the public, such as respect for regulations and the tax system. In the long run, trust is considered necessary to address social challenges such as climate change, an aging population, and the automation of labor. In the field of governance, the evaluation will also focus on issues such as the structure of governments, including separation of powers, and the integrity of the public sector, including the application of principles of high standards of behavior in public institutions.

Unsurprisingly, the environmental issue takes up more space on the roadmap for Brazil and the other candidates. Its policies and practices will be compared to OECD best practices. In fact, the environmental policy and chemicals committees have 40% of the OECD recommendations. The candidates will be examined based on at least 20 items on the environmental front, proportionally the largest number.

In the case of Brazil, the issue takes on a greater dimension because of the distrust with which the Bolsonaro administration is viewed on the environmental front. The map mentions the issue of deforestation in relation to the environment and agricultural production, according to a source.

The OECD wants to know what happens in the candidate country in line with the commitment made in Glasgow last year to “working collectively to halt and reverse forest loss and land degradation by 2030.”

The Environmental Policy Committee will also check how Brazil applies the principle that the polluter, rather than government subsidy, pays for prevention and control measures against pollution. It will also assess whether sectoral policies take into account the need to internalize environmental improvement. In the Agriculture Committee, one question is whether sectoral policies contribute to sustainability and improved environmental performance, and “green growth.”

In the discussion about the roadmap for Brazil, France was particularly active on environmental and agricultural issues, but without blocking the negotiation.

In the Fiscal Affairs Committee, the elimination of double taxation on income and capital will be examined, adopting the OECD convention model. On the financial front, the blockchain issue will also enter the evaluation, for example.

Economy Minister Paulo Guedes and Chief of Staff Ciro Nogueira will be at the OECD on Thursday for the approval of the roadmap.

From the 20th to the 24th of this month, a mission from the OECD, called the kick-off mission, will take part in the OECD/Brazil Forum with representatives from the Brazilian government, for the negotiations for the country to fit into the OECD standards.

Mathias Cormann, Secretary-General of the OECD, will be received by President Jair Bolsonaro on the 22nd in Brasília, symbolically launching the country's admission process to the organization.

Source: Valor International
<https://valorinternational.globo.com/>

06/08/2022

COMPANIES GAUGE INTEREST IN STOCK OFFERING AGAIN

Eletrobras's capital increase encourages capital market

Companies are slowly beginning to evaluate the possibility of resorting to the capital markets to finance their expansion. In the last two weeks, sanitation companies Corsan (Rio Grande do Sul) and BRK Ambiental (São Paulo) announced that they intend to go public after some months marked by a few IPOs.

Stimulated by the secondary offering of power giant Eletrobras, oil companies listed on the Brazilian stock exchange have also started to sound out investment banks to take the same path. PetroRecôncavo informed the market that it intends to raise up to R\$2 billion. Sources told Valor that 3R Petroleum and PetroRio are considering doing the same, as well as power generation company Eneva.

If expectations are confirmed, sanitation companies BRK Ambiental and Corsan could launch the first IPOs of the year. China Tree Gorges (CTG) and oil company SeaCrest are also starting to sound out investors and may make initial stock offerings after the elections, sources say.

So far, there have been nine secondary offerings this year, raising R\$13 billion. With the scenario of high interest rates and inflation both abroad and in the domestic market — compounded by uncertainties brought by the presidential elections in October — companies had given up on the capital markets. With Eletrobras's capital increase, which could raise about R\$30 billion, companies have begun to check and see if there is room for a restart. Eletrobras's offering is expected to be priced Thursday.

But the atmosphere is not for euphoria. Gustavo Miranda, head of investment bank at Santander, sees the scenario as more favorable for secondary offerings than for IPOs. "Brazil, compared to other emerging countries, is even more attractive because of commodities." He observes, however, that this factor is not enough for initial stock offerings to resume the pace of the last two years. Turbulence in the economy and strong market volatility continue to drive companies away from the market.

This is happening abroad as well. In the United States, the volume of stock offerings plummeted, Mr. Miranda said. From January to May, 157 companies debuted, raising \$17.9 billion. In the same period last year, 628 companies went public, raising \$192 billion, according to Dealogic.

According to him, the next windows for offerings are narrow. There is room for pricing until July. Then, with the summer holidays in the Northern Hemisphere, the opportunities for those seeking to go public after the elections will be between the end of November and December.

Last year, there were 76 IPOs and secondary offerings, which raised almost R\$130 billion, compared to 51 in 2020, with R\$117 billion raised. For 2022, preliminary estimates by investment banks show that the amount could reach a third of that negotiated in the past if Eletrobras manages to conclude its secondary offering.

In the financial market, there is still a lot of skepticism about the IPO plans of BRK and Corsan. According to a source, the two sanitation companies do not have a price reference for shares of competitors in the domestic market. Corsan's offering would be the first privatization of a state-owned company in the sector. BRK would be the first private-sector company in the segment to go public — Iguá Saneamento has already tried, but did not reach an agreement on the price of the shares.

The situation is different for CTG and oil company SeaCrest, which have rivals in the exchange. Even so, if the political and economic turbulence persists, the offerings may be postponed until 2023.

A source familiar with Corsan says that the biggest difficulty will not be the market, but the setting up of the operation. One major obstacle is public spending watchdog TCE, a state agency, whose questionings were determinant for the postponement of the offering, in January. Since then, the company has been making adjustments to meet the agency's demands. For example, in May, it disclosed new rules of governance applicable after the offering.

There is still no approval by the TCE, but an agreement is expected for the end of next week. Unlike the Federal Court of Accounts (TCU), which can bar privatizations, the state court would not have this power, but an unfavorable position would bring great risk to the offering.

Besides the TCE, there are dozens of requests for canceling the process, but, according to the source, about 80% of the requests have already failed, which shows that the process has been robust, he said.

In January, before opting for postponing, Corsan almost closed an anchor agreement with Aegea and Perfin for its IPO. Today, the perception is that "there should be no formal anchoring" for the offering, according to the source. BRK's offering, announced last week, was not so well seen at Corsan: on the one hand, it strengthens the idea that the basic sanitation industry stands out; on the other, the IPOs are seen as competing for the same investors. According to a person familiar with the matter, BRK has already started sounding out investors to test the pricing of its shares. There is a consensus that state-owned bank Caixa, one of the company's shareholders, wants to reduce its position. Brookfield, another shareholder, is not in such a hurry, sources say. The prospectus draft sent to the Securities and Exchange Commission of Brazil (CVM) foresees a primary offering, aiming to raise funds for auctions.

For Bernardo Parnes, founding partner of the financial advisory firm Investment One Partners, the privatization of Eletrobras is positive for the capital market. "Just look at the examples of Vale and the Telebras system. In the case of Eletrobras, the offering will help unlock value in the company."

Mr. Parnes does not see, however, a capital market recovery in the short term. "About 80% of the companies that carried out an IPO between 2020 and 2021 have undervalued shares now."

According to him, several factors contribute to this diagnosis, such as high interest rates in Brazil and abroad, the Russia-Ukraine war, which affects logistics, and rising oil prices. Mr. Parnes sees a recovery of the global economy between the end of 2023 and the first half of 2024.

PetroRio said that the secondary offering is one possibility for funding, should it decide to go ahead with the operation. Eneva said it is considering some alternatives to finance recent acquisitions of the company, "always striving for the best allocation of funds and strong capital discipline. One possibility analyzed is a secondary offering, which is still under study."

CTG and 3R Petroleum said they would not comment on market rumors. Caixa declined to comment, citing a quiet period. BRK, Brookfield, Corsan, Aegea and Perfin declined to comment. SeaCrest did not immediately reply to a request for comment.

Fonte: Valor International
<https://valorinternational.globo.com/>

06/08/2022

REDUCTION IN FUEL TAXES MAY HARM ETHANOL

Cheaper gasoline can make biofuel unviable because of loss of competitiveness

Eager to reduce fuel prices by any means, the Bolsonaro administration may end up hurting sales of a renewable fuel like hydrous ethanol, which has an average carbon footprint 70% smaller than the gasoline currently sold in Brazil's gas stations. Analysts say the creation of a 17% ceiling on sales tax ICMS levied on fuels in a general way, as proposed in the complementary bill 18, both for fossil and renewable fuel, may lead owners of bi-fuel cars to fill their tanks with gasoline instead of ethanol.

This may happen because the ICMS tax on ethanol is already lower than the rate charged on gasoline in several states, which guarantees the biofuel competitiveness for a good part of the year in important consumption centers, such as São Paulo, Minas Gerais, Paraná and Goiás.

Together, the four states represent 80% of the Brazilian consumption of hydrous ethanol. In these states, the ICMS on gasoline is between 25% and 31%, while the tax on ethanol is 5 to 12 percentage points lower, between 13% and 25%.

If ICMS is limited to 17% across the board, the reduction in the gasoline tax burden will be much greater than the reduction in the ethanol tax burden.

In São Paulo, only gasoline would be favored, since the load on fossil fuels is currently 25%, while the ICMS tax rate on ethanol is 13.3%. According to simulations by ItaúBBA, gasoline would become cheaper, and ethanol would be worth 74.6% of its price, up from 69.4% today. For the average Brazilian bi-fuel fleet, hydrous ethanol becomes uncompetitive when its price exceeds 70% of the price of gasoline, because of efficiency.

The same is true for Minas Gerais, the second-largest biofuel consumption center in the country, where gasoline is taxed at 31% of ICMS and ethanol at 16%. With the reduction of the gasoline tax rate to 17%, the ratio between the price of biofuel and gasoline would rise from the current level of 70.1% — where the two fuels are equivalent in terms of efficiency — to 80.1%, making ethanol less competitive.

The discussion has reached the Senate. On Tuesday, Senator Fernando Bezerra Coelho (Brazilian Democratic Movement, MDB, of Pernambuco) said he is likely to present a constitutional amendment proposal of ethanol this Wednesday to ensure a 30% lower ICMS tax rate for biofuel compared to gasoline.

The PIS/Cofins tax exemption that the Bolsonaro administration intends to grant both on gasoline and ethanol would not change this scenario, since both fuels would be treated equally. According to BTG Pactual, gasoline would be 17% cheaper at the pumps in São Paulo, or R\$1.14 a liter.

If ethanol producers want to prevent the destruction of demand for the product, they will have to accept receiving lower prices, analysts say. BTG Pactual calculates that the prices charged by São Paulo's mills to distributors would have to drop 17%, or R\$0.38 a liter, to R\$2.87 a liter.

In the scenarios outlined by ItaúBBA, the São Paulo plants that supply the state would have to reduce the amount they receive by R\$0.2806 per liter, while those in Minas Gerais would have to accept a reduction of R\$0.6556 per liter.

Felipe Maia, a tax lawyer with Santos Neto Advogados, says that if there is no different treatment in the debate about tax reduction on consumption, "there will be a migration and there will be a lack of demand for ethanol, which will have an environmental impact." In many states, biofuels already have tax incentives at the production stage, but Mr. Maia says this is not enough to encourage this market.

This dynamic would also impact the sugar market, since the reduction in the price of hydrous ethanol tends to discourage mills from producing more biofuel and stimulate the production of the sweetener – even if the additional remuneration from the Decarbonization Credits (CBios), linked to ethanol, is taken into account, BTG Pactual said.

Currently, the total remuneration offered by ethanol, already considering the gains with CBios, is 3% below the remuneration offered by sugar. With a drop in ethanol gains, the difference would reach 13%, according to the bank. As a result, the mills can produce more sugar than expected.

In a scenario with prices from last week, consultancy hEDGEpoint had already signaled a tendency of pressure on sugar prices if the ICMS bill is approved. According to the firm, the price of ethanol, converted to the value of sugar on the international market, which was the equivalent of 20.14 cents a pound last week, would fall to 18.46 cents a pound

Source: Valor International
<https://valorinternational.globo.com/>

06/08/2022

ANALYSIS: SHOULD CENTRAL BANK REASSESS FISCAL RISKS?

Questions emerged after federal government's decision to undermine fiscal anchor to hold fuel prices down

Market analysts have begun to discuss whether the Central Bank's Monetary Policy Committee (Copom) should reassess its balance of risks to inflation after the government unveiled the intention to go over the spending cap to reduce fuel prices in this election year.

In its last two meetings, the Copom became less downbeat about the fiscal situation. As a result, the danger that the lack of control of public accounts could lead to higher inflation than projected for next year took a back seat in its monetary policy decisions.

In March, the policymakers concluded that the balance of risks to inflation was less tilted to the negative side, arguing that current fiscal data were better than expected and that the foreign exchange rate and inflation expectations already reflect most risks. In May, for similar reasons, they saw risks balanced.

The rebalancing of risks was at odds with the view of most of the market. The pre-Copom survey made on the eve of the meeting in March showed that 50% of economic analysts evaluated that the fiscal situation had worsened at that moment, compared with 22% who said it had improved. The remaining 28% thought there had been no change.

Due to the strike by Central Bank employees, the results of the May pre-Copom survey were not released. The Central Bank has sent a new survey to the market to gauge opinions for its meeting next week.

In its official documents, the Central Bank has asked the financial market for “serenity” in assessing fiscal risks in an environment it considers to be one of great uncertainty. Many, however, say that the improvement in short-term data is undermined by the destruction of the fiscal anchor.

The exchange rate is again under pressure as the deterioration of the fiscal situation became clear after a new attempt by the federal government to go over the spending cap, the rule that limits public spending to the previous year's inflation. Above all, such deterioration caused long-term interest rates to rise, which means that investors require a higher premium to buy National Treasury bonds.

A potential revision of the balance of risks would have implications for monetary policy. Currently, the Copom is managing interest rates with a view to meeting the 2023 inflation target. According to the most recent projection of the monetary authority, released in the May meeting, inflation is seen at 3.4% in 2023, above the 3.25% target for the year.

The market, however, already estimates inflation of 4.39% in 2023, after faster rates in April and May. The projections by the Central Bank may be revised upward as well.

If the Central Bank acknowledges the worsening of the balance of risks, making it asymmetric again, it would mean that the inflation expected by the policymakers would be even higher, since the chances of a higher-than-expected reading would be greater than of a lower-than-expected rate.

In theory, this would require even higher interest rates to bring inflation to the target within the relevant monetary policy horizon.

But many analysts are skeptical that the Central Bank will revise its balance of risks to inflation. The monetary authority has sent several messages that it is near the end of the monetary tightening cycle. In addition, considering that current inflation is rising more than expected, the Central Bank is unlikely to look for new reasons to raise interest rates even more.

Source: Valor International
<https://valorinternational.globo.com/>

06/09/2022

FUEL TAX BREAKS OFFER SHORT-TERM GAIN BUT SLOW DOWN GROWTH IN 2023

Economists say positive impact is temporary and that inflation will follow

The government's measures to reduce fuel prices may lower inflation and stimulate the economy in the short term, during the election period, but they will lose a good part of these gains next year, making the scenario of the new presidential term more challenging.

"The best definition for this set of measures is fiscal populism," said former Central Bank President Affonso Celso Pastore. "First, it brings down inflation in the election year, with the goal of boosting the approval rating of the president. It transfers inflation to next year since the measures cannot be extended if they have a minimum of responsibility. This is not economic policy. There are no economic or social objectives."

The time-honored definition among economists for populism is precisely policies that bring gains in the short term, helping the approval ratings of the rulers, but that does not prove sustainable in the medium and long term.

Financial market economists are calculating the effect that the package of measures may have. Considering that the measures achieve all the goals expected by the government, inflation this year could be about 3 percentage points lower than forecast, according to calculations by Itaú Unibanco, which is in line with the estimates of other lenders.

The problem is that at least part of the measures is temporary. The Bolsonaro administration announced its intention to reimburse the states that cut the sales tax ICMS on diesel and cooking gas to 0% from 17%. It also intends to reduce to zero the federal tax rate by the end of the year.

This measure, according to Itaú, would have a downward impact of about 0.9 percentage points on inflation in 2022. But, as they are only valid for this year, they would also cause a 0.9 percentage point increase in inflation in 2023, which today is the main target of monetary policy.

Considering both effects, inflation this year would fall to 6% from around 9% estimated by the market, easing the pressure over President Bolsonaro during the election campaign. However, inflation could rise to 5.4% next year from 4.39% forecast by the market. Thus, it will be moving away from the inflation target of 3.25%.

A former head of the Central Bank, who asked not to be named, says that the inflationary impact in 2023 and beyond could be even more severe. States and municipalities are giving up non-permanent revenue gains and would have to replenish revenues with tax increases once the boom in commodity prices has passed.

The increased fiscal risk caused by the measure could also cloud the inflationary scenario, said Solange Srour, the chief economist at Credit Suisse. “The fiscal risk is increasing and creates a new problem for the new administration, whoever the president will be,” she said.

According to her, the states’ tax cuts, based on a revenue gain that does not tend to be permanent, could weaken their fiscal situation further down the road. “When states are in difficulties, the federal government is always called upon to bail them out.”

Short-term measures, on the other hand, give only short-term relief on some prices, but in essence do not change the dynamics of inflation. “The Central Bank should not feel more comfortable to end the cycle of interest rate hikes,” she said.

Itaú estimates that the entire tax reduction package would have a fiscal impact of 1.7% of the GDP, also considering the bill that limits the ICMS tax rate on electricity, telecommunications and fuels to 17%. From the point of view of economic activity, the package would have an initial stimulus impact. Tax cuts expand the population’s disposable income and tend to make room for more spending in household budgets.

But, in a further moment, the economy will tend to feel the impacts of the worsening in financial conditions. As a result, the prospects for GDP expansion in 2022 may improve in relation to the 1.2% forecast by the market in Focus, the Central Bank’s weekly survey with economists. But for next year, it may fall below the estimate of 0.76%.

For now, Ms. Srour said, the market’s reaction has been relatively moderate, in interest rates, exchange rates and stock markets. But there may be an intensification of risks as the proposal of constitutional amendment (PEC) is discussed in Congress and it becomes clearer that the first year of the next federal and state governments will be more difficult.

“In the debates about the PEC, the pressure to offer a larger and longer compensation to the states, besides other demands, may increase,” she said.

Igor Barenboim, partner and director at Reach Capital, has a different view. For him, one cannot rule out the possibility of the measures having a more lasting positive effect. “It can be good for inflation, it can be good for economic activity,” he said.

He argues that Brazil is being impacted by a commodity price shock, with both positive and negative unfolding. On the negative side is inflation, particularly severe in fuel prices. But there is also a positive impact on the economy that favors tax collection.

For Mr. Barenboim, it is acceptable that political forces use some of those gains to mitigate the negative impacts of the shock. Another economist with a large bank says that even with the program launched by the government, the primary result will be much better than expected.

A few months ago, this economist’s estimate was for a primary deficit of R\$100 billion. With the surprise in the tax collection and the auction of power utility Eletrobras, the outlook has changed to a positive result of R\$80 billion. The new expenditure with the fuel package may lead to balance or a primary deficit, but not as high as previously predicted.

Mr. Barenboim says that the impacts of an eventual worsening of fiscal risks on inflation and activity are not guaranteed. At this first moment, the markets’ reaction was moderate, and the real economy would have already readjusted prices considering a weakened real.

Source: Valor International
<https://valorinternational.globo.com/>

06/09/2022

ELETROBRAS SEES STRONG DEMAND FROM INVESTORS

Demand could reach R\$53.5bn; stock price of Brazil's main power utility will be defined Thursday in privatization process

Brazil's main power utility Eletrobras prices Thursday its great stock offering and, on the way to privatization, reaches the final stretch of the bookbuilding with plenty of volume to launch the operation. According to sources close to the operation, the company had already secured about R\$53.5 billion by early Wednesday afternoon.

The demand via the Workers' Severance Fund (FGTS) is around R\$7.5 billion, but allocations will be limited to R\$6 billion – which already signals sharing among investors. Workers could invest up to 50% of their resources in the fund, and applications closed on Wednesday at noon.

As it has already been launched with strong anchoring, the institutional investors that are not in these groups or that exceed the ceiling reserved for each profile will dispute what remains of the bookbuilding. There are about R\$26 billion in reserves for a number of shares of around R\$6.5 billion – that is, the demand is four times higher than the offer.

When the secondary offering was launched, Eletrobras shares were at R\$44. On Wednesday, ELET3 closed at R\$42.14 and ELET6 at R\$41.63, which adjusts market expectations for a funding of around R\$34 billion, with the allocation of the supplementary lot.

The banks BTG Pactual, Bank of America, Goldman Sachs, Itaú BBA, XP Investimentos, Bradesco BBI, Caixa Econômica Federal, Citi, Credit Suisse, J.P. Morgan, Morgan Stanley and Safra are coordinating the operation.

Source: Valor International
<https://valorinternational.globo.com/>

06/09/2022

PRESSURE ON LONG-TERM INTEREST RATES MAY REMAIN HIGH***Analysts say fiscal risk, approaching end of the tightening cycle will stir interest rate curve***

Even though they are at the highest level this year, long-term interest rates may not find so much support ahead for a stronger withdrawal of risk premiums. The market is already starting to see the end of the monetary tightening cycle over the coming months and, even though some agents see this event as important to unburden the market, the scenario for long-term rates is not very favorable, because fiscal and political risks continue to rise, at the same time as the Treasuries continue to go up.

The bets of the agents, therefore, have been concentrated on the steepening of the yield curve, that is, on a wider spread between long-term and short-term interest rates. At the moment, the spread between long and short rates is negative — in market jargon, the yield curve is inverted. On Wednesday, the difference between five- and ten-year interest rates was -0.635 points. In the view of market analysts, this difference tends to widen after the end of the monetary tightening cycle. This bet indicates the possibility of short interest rates falling significantly, or even the chance of long rates rising further.

"All the paths lead to a greater slope of the yield curve," said Mauricio Oreng, head of macroeconomic research at Santander. He listed the factors that point to this scenario: the monetary tightening process in advanced economies, which has generated doubts about the natural level of interest rates; the inflation peak; the nearby end of Brazil's benchmark interest rates Selic hike cycle; and the fiscal risks, which remain on the radar.

As for the international scenario, Mr. Oreng notes that international interest rates usually have an influence, especially on long-term rates. "We have this tightening scenario that may be faster than in other cycles for several central banks in developed countries and there is doubt whether in the future, when the cycle is over, interest rates will be at higher levels," he said.

"The doubt is what the natural level of global interest rates will be in the future. Did we have an increase after all those inflationary impacts in the post-Covid, worsening of production chains, geopolitical tensions? It is a question mark that can bring the view that the natural interest rate in Brazil may have risen additionally," Mr. Oreng said. He

notes that, with the increase in fiscal risk during the pandemic, Brazil's neutral interest rate rose to around 4% in real terms, in Santander's calculations, and adds that it may be that the neutral interest rate will rise even more, depending on the global neutral interest rate.

As for domestic factors, fiscal risk is one of the issues that have often put pressure on long-term interest rates. In the last few days, the discussions about the sales ICMS tax and other tax cuts proposed by the federal government to contain fuel prices generated a strong rise in long-term rates, which reached their highest levels since October 2021. On Wednesday, the DI rate for January 2027 rose to 12.605% from 12.57%.

Besides the fiscal issues, one main factor cited by market analysts for betting on the steepening of the yield curve is the proximity of the end of the monetary tightening cycle. As soon as the Central Bank indicates that it has ended the process of raising interest rates, the market will start to include in the price of assets when the inverse movement will happen, which can generate a predisposition of the market to bet on the fall of shorter-term interest rates.

The CIO of BV Asset, Luiz Armando Sedrani, highlights the fact that Brazil is one of the few countries, among the world's main economies, whose interest rate is already above current inflation levels, which can be translated into an advanced stage of the monetary tightening cycle.

According to him, global inflation caused by commodities may start to lose traction from now on. Moreover, when inflationary pressures more linked to economic activity in Brazil begin to give way, the disinflation movement may be faster than expected by financial agents. "This way, we have a preference for bets that benefit from the steepness of the yield curve. On the one hand, we believe that the Central Bank may cut rates sooner than expected. And, on the other hand, the increase in political risk also benefits the strategy," states Mr. Sedrani. In the context of better-than-expected fiscal results, the executive believes that it seems to be difficult to contain the government's impetus to expand spending, especially in an election year. "We believe there will be pressure for more spending and the government will try to stimulate the economy. This concerns us, it has an impact on the yield curve, and so our bets are on steepening," he argues.

Legacy Capital is another asset management company likely to increase positions that benefit from a greater spread between long and short interest rates, in view of the proximity of the end of Selic peak. "Whenever the cycle of interest rate hikes has been interrupted, the curve has steepened. For different reasons, but the slope always increases," said Gustavo Pessoa, partner and manager of Legacy.

Legacy follows this process in Brazil and other countries, and it "has never failed," Mr. Pessoa said. Thus, the firm maintains this position in the portfolio. "The difficulty is to understand when the cycle will be over. When the movement [of increasing the slope of the yield curve] happens, it tends to be abrupt and powerful," he said. Fernando Fenolio, the chief economist at WHG, evaluates that the bets on a wider spread between long and short interest rates are based on the view that the actions of the Central Bank are likely to influence short rates, while the fiscal risk can keep the long-term interest rate under pressure.

"If the Central Bank stops raising interest rates at the next meeting, in a scenario of high inflation and deteriorating expectations, the yield curve could steepen considerably with an inflation premium. It would mean a market reading that it [the monetary authority] would be interrupting the cycle at a moment when the work is not yet finished," Mr. Fenolio said.

On the other hand, if the monetary authority ends the tightening cycle at a moment of cooling of current inflation and expectations, the inclination of the curve could occur at a lower magnitude. "In this case, the market would begin to project the interest rate cut cycle," the economist said.

"But the premium for the fiscal situation could well dominate the steepening. In a more extreme scenario, if the fiscal risk rises too much, we could even see a need for the Central Bank to raise interest rates again and the curve to flatten again," Mr. Fenolio said. He, however, stressed that this is not WHG's baseline scenario.

Source: Valor International
<https://valorinternational.globo.com/>

06/09/2022

FARMERS SEEK TO AVOID BARRIERS TO BRAZILIAN MEAT IN EUROPE

Mato Grosso-based institute proposes technical, financial cooperation to foster sustainable production

The Mato Grosso Meat Institute (Imac) has started a movement to try and avoid the approval of new rules by the European Union that would impose trade barriers to livestock products from the state and the country because of deforestation.

In meetings with authorities in Belgium and Germany this week, members of Imac will present a proposal for technical and financial cooperation with Europe to foster sustainable production in Brazil, to remunerate the environmental services rendered, and improve the monitoring of the herds.

“We will suggest that the European Union participate with more influence and economic capacity in the Brazilian meat market, defining obligations for monitoring and inspection of the production chain, with the integrated cooperation of its links, to give support and structure an action plan that will allow the recovery of deforested areas without marginalizing cattle farmers, mostly small and medium-sized ones,” said Caio Penido, head of Imac.

The intention is to open a “channel of dialogue” with the Europeans. Imac wants to put together a more “proactive, constructive and inclusive” joint trade policy, capable of sharing costs and problems. The current assessment is that new European rules under discussion may exclude several producers that act legally, without reaching the objectives of environmental protection.

Among the points presented by Imac to the Europeans is the fact that the proposed regulation for the bloc does not consider the implementation costs and the economic impact borne by farmers for its regularization, nor does it treat companies that already apply compliance systems differently.

The institute suggests the “creation of incentives through remuneration for environmental services rendered, including in an integrated manner to the global carbon market” and the increase of import quotas with premium prices for properties that conserve biodiversity.

The institute also warns that the legal deforestation supported by the Brazilian Forest Code, of up to 20% of forest areas in the Amazon rainforest, for example, must be respected. According to Imac, the cattle farmers will not give up a certain gain with the production in a regular and productive area because of “generalist economic arguments.”

In the document presented to the Europeans, Imac highlights the control programs already implemented in the country. “The main problem of deforestation in Brazil, in the meat chain, is technological unavailability and lack of professional assistance,” it said.

The European proposal for “regulation of deforestation-free products” determines that imports will not be able to enter the European market if the production area is identified as being in a deforestation zone, which Brazilian cattle farmers consider a “boycott.”

The project may be analyzed by the Council of Ministers at the end of the month, and the final draft is expected to reach the European Parliament in July. Besides meat, the rules may affect other production chains, such as soy and coffee.

Source: Valor International
<https://valorinternational.globo.com/>

06/10/2022

ELETROBRAS RAISES R\$33.7BN IN MEGA STOCK OFFERING

After privatization by capital increase, government will hold about 40% of votes

Eletrobras managed to price at R\$42 each share in the mega stock offering that will privatize the company. Eletrobras sold 802.1 million shares, raising R\$33.7 billion.

According to a Valor Data survey, in dollar terms, the amount represents a little more than twice the volume of Vale's privatization, and 78% more than Banespa's privatization. It was the second-largest privatization ever in the country, second only to that of telecoms company Telebras.

With the sale of part of shares held by the Brazilian Development Bank (BNDES) and especially the dilution of the federal government's stake with the issuance of new shares, the government is no longer the controlling shareholder of Eletrobras — although it holds a golden share. The federal government and the BNDES go to 40.3% from 68.6% of the common shares (there is still a small participation of other government funds, not detailed in the prospectus), going to 36.9% of the total capital.

By early evening, the tug-of-war between banks and investors was concentrated on a R\$0.5 difference, with the official range between R\$42 and R\$42.5. Relevant international investors, such as GIC and CPPIB, had tried to reduce the price (in the morning, the groups were pushing for shares between R\$38.5 and R\$39.5). With the high interest in the operation, around R\$60 billion, the banks managed to raise the price. The Brazilian institutional group includes funds such as SPX and Truxt, already existing shareholders 3G Radar and Banco Clássico, and firms such as RWC and GQG Workers who invested using funds from the Workers' Severance Fund (FGTS) will keep R\$6 billion in shares, which was the maximum value for this type of reserve. According to Valor Investe, around 370,000 workers used the FGTS to make reserves for the shares — a demand higher than the 248,000 workers who joined, with the same fund, Petrobras's offering in 2000, but lower than Vale's offering, in 2002.

In the privatization process, the company wants to migrate to Novo Mercado — the strictest governance segment of B3. To keep the status of a corporation, the golden share gives the federal government veto power on changes in the bylaws, such as trying to change to 10% the limit of voting power for each shareholder or group. The company also defends the new composition, which prevents the controlling shareholder from creating a poison pill.

Privatization via capital increase also implies the payment of fixed concessions, concerning the renewal of concessions and the adoption of the operation regime — changing from the quota model to the independent production model, in which the plants can sell power at market price.

Although it is different from the classic privatization by auction, with the sale of government participation, the process has the same outcome. "Internally, the structure changes a lot. There is no longer need for a public hiring test, it is no longer under the control of the public spending watchdog TCU, it no longer fits into the law of state-owned companies, it is no longer a semi-public company," said Vitor Rhein Schirato, founding partner of Daemon Investimentos.

These changes alone can already help the company gain efficiency, in the view of investors. "Historically, privatizations have been accompanied by higher productivity and competitiveness. The companies became more efficient and this in itself should boost competition in the sector, benefiting the consumer," said Sergio Zanini, a partner at Galapagos.

With different projects and supporters in recent years, the privatization of Eletrobras was fraught with disbelief even after the public offering was filed (you never know when an injunction might come along). At the beginning of last year, Wilson Ferreira Jr. left the command of the company — to which he had agreed to return precisely to conduct the privatization — annoyed with actions in different wings of government to block the process.

Mr. Ferreira Jr., who currently heads Vibra, estimates that Eletrobras will be able to more than triple its investments, becoming a more efficient and competitive company. The management of a state-owned company "is a living hell," the executive told newspaper O Estado de S. Paulo last week, describing complex and rigid decision-making. The company, on the other hand, will now assume risks that used to be shouldered by the controlling shareholder, such as hydrological risks.

Some people link Eletrobras's privatization to the beginning of the electoral race – but the fact is that it materialized. “It was one of the government's promises since the election and, for good or for bad, being able to deliver this offering, at this size, with this demand, is relevant for the government,” Mr. Zanini said.

In the base offer, Eletrobras issued 627.7 million new shares, and BNDES sold 69.8 million shares. An additional allotment added more 104.6 million to the offering.

Source: Valor International
<https://valorinternational.globo.com/>

06/10/2022

PETROBRAS STALLS FUEL PRICE HIKES

Meanwhile, changes in management team of oil behemoth are also in standstill

The double-digit gap between diesel prices in Brazil and abroad means that Petrobras could immediately raise costs to refineries, sources told Valor. The company, however, continues to analyze the market situation before deciding.

Consultants' calculations indicate that the price of diesel that Petrobras charges from distributors is between 15% and 17.5% below international parity. In the case of gasoline, there are estimates that the price the state-owned charges from distributors in Brazil is 45% below the price negotiated in the Gulf of Mexico, one of the world's main refining centers.

Meanwhile, the management changes intended by the government in the state-owned company, as part of President Jair Bolsonaro's strategy to try and control fuel prices, continue to face difficulties.

On Wednesday, there was a meeting of the board of Petrobras. The company's strategic planning was on the agenda, but the discussion turned to the state-owned company's Eligibility Committee (Celeg), linked to the Personnel Committee (COPE). Celeg/COPE verifies if candidates for the board meet the necessary requirements and have no restrictions to run for the position, according to the internal rules of the company and the State-Owned Companies Law.

In a statement released on Thursday, Petrobras confirmed that the collegiate debated the day before a request made by the federal government, the company's controlling shareholder, to replace the current CEO, José Mauro Coelho, by Caio Paes de Andrade, who is associated with Economy Minister Paulo Guedes. But there was no decision concerning this issue. A person familiar with the company said that “the analysis [of Mr. Paes de Andrade by Celeg] has not been made yet because the information is not ready.”

Mr. Paes de Andrade was nominated on May 23, through a letter from the Ministry of Mines and Energy (MME), which requested a shareholders' meeting to elect him as a board member — the first step for him to become the company's CEO to replace José Mauro Coelho. On May 25, the Petrobras collegiate met and concluded that it needed to wait until the federal government sent the list of eight candidates (including Mr. Paes de Andrade) to the Petrobras board, which has not yet happened.

Mr. Coelho, the current CEO of Petrobras, was elected in the shareholders' meeting in April by an unbundled vote, and once he is removed all other members of the collegiate elected by the same system must go through a new election. Eight of the 11 members of the Petrobras board were elected by this method, which allows votes to be concentrated on certain candidates. These are the eight positions expected to be disputed once again in the meeting, which has not set a date so far.

This list seems to have become a point of conflict between independent advisors and the government. Celeg/COPE, after having received Mr. Paes de Andrade's documents, is still waiting for the list of the other government candidates. The government, in turn, is trying to bring forward the result of the Eligibility Committee's analysis to know if Mr. Paes de Andrade will be approved by the company's governance bodies. The situation has become a kind of chess game, in which each party waits for the opponent's move to define its own move.

Meanwhile, almost nothing is happening.

Source: Valor International
<https://valorinternational.globo.com/>

06/10/2022

BRAZIL CLIMBS THREE POSITIONS, RANKS 6TH IN FDI

UNCTAD shows optimism about Brazil's rise, unlike the rest of the world

Brazil was the sixth country that attracted the most Foreign Direct Investment (FDI) in 2021, climbing three positions in relation to the previous year, the World Investment Report released Thursday by the United Nations Agency for Trade and Development (UNCTAD) points out.

The expectation is that the country can continue to attract a good volume of productive foreign investment, although the global trend now is slowing down because of the war in Ukraine.

The FDI flow to Brazil in 2021 reached \$50.3 billion, up 77.9% from 2020, when the country received \$28.3 billion, according to Unctad's consolidated figures.

In January, the UN agency had estimated that the flow to Brazil could have increased by more than 100% and the country would be the seventh-largest destination for real foreign investment.

"Brazil is an interesting case," James Zhan, head of Unctad's investment division, told Valor. "It is typically one of the largest recipients of FDI in the region and even among the most advanced developing countries.

He notes that there was a strong recovery of investment in Brazil in 2021, but it has not yet resumed the level of 2019, before the pandemic, when the flow reached \$65 billion. Last year, the flow was driven by the reinvestment of profits that multinationals had accumulated in recent years.

For Mr. Zhan, commodity prices may encourage multinationals to increase their investments in Brazil, expand existing operations and perhaps some new investments in the extractive industries and in the production of other commodities, such as in agriculture this year.

"That could be a kind of continued increase in investments for a full recovery of FDI in the country," he said. In 2021, Brazil was behind only the U.S., China, Hong Kong, Singapore and Canada as a recipient of FDI. And it attracted more productive resources than India, an economy that grows about 8% annually and is pointed out as one of the drivers of global expansion.

The FDI flow of \$50.3 billion last year represented 18% of the gross fixed capital formation (GFCF), a measure of the productive capacity of an economy, compared to 11.8% in 2020.

The stock of FDI in Brazil totaled \$592.7 billion at the end of 2021 (or -0.4% compared to the previous year) and represented 36.9% of the GDP compared to 41.1% in 2020.

The announcement of greenfield projects in Brazil reached \$23.2 billion, or 35.1% more than in 2020. Mergers and acquisitions by foreigners in the country fell 45.7% between 2020 and 2021. The volume declined to \$2.7 billion last year from \$14.3 billion in 2018.

Overall, global foreign direct investment flows reached \$1.6 trillion last year. Reinvested profits by subsidiaries of multinationals accounted for the bulk of this amount, reflecting a record high in profits for these companies in the wake of rising demand, low financing costs, and significant government support. Multinationals' profitability doubled to 8.2% last year on average.

As for this year, UNCTAD sees "a significant risk" of the momentum for international investment recovery stopping untimely.

The global environment for international investment has changed dramatically with the war in Ukraine. New project activity already reflects increased risk aversion among investors. Preliminary data for the first quarter show a 21% drop in greenfield projects. And international project financing fell by 4%.

Most of the top 5,000 multinationals have revised downward their earnings estimates for 2022 — but with differences that point to risks of setbacks in the energy transition.

The oil and gas industry forecasts an additional 22% gain and the coal industry another 32%, while the renewable power industries project a 22% drop in profits.

Other factors will negatively affect FDI in 2022. The spread of Covid-19 in China (with new lockdown measures) impacts global value chains.

Rising interest rates in several countries are also expected to slow down M&A activity and dampen growth in international project financing.

Negative financial market sentiment and signs of a looming recession could accelerate a fall in FDI. But UNCTAD also points to stabilizing factors. For example, large public support packages for infrastructure investment, with implementation over several years.

Source: Valor International
<https://valorinternational.globo.com/>

06/13/2022

MARKET EXPECTS NEW INTEREST RATE HIKE

Selic rate is expected to be raised to 13.25% on Wednesday because of worsening inflation and fiscal risk

With the Selic policy interest rate already in double digits since the beginning of the year and in significantly contractionary territory, the Central Bank's Monetary Policy Committee (Copom) meets this week to deliver a new interest rate increase. The market consensus points to a 50 basis points hike, which would take the basic rate to 13.25%.

The decision, however, became even more uncertain. The de-anchoring of inflation expectations for 2023 has intensified since the last decision and, in addition, the deterioration in the balance of fiscal risks has given additional support to the possibility of a further increase in the Selic in August — a scenario that has already been captured in the survey carried out by Valor.

The survey was carried out between Thursday and Friday, after the release of Brazil's benchmark inflation index IPCA for May and included 91 financial institutions and consulting firms. The midpoint of the projections collected by Valor indicates that the Selic rate should be raised by 50 basis points this week and by another 25 bp in August, when it would reach 13.5%, at the end of the current monetary tightening cycle. In the survey released on May 30, the consensus pointed to a Selic rate of 13.25% at the end of the cycle.

The increase in expectations for the Selic rate comes in the wake of a further deterioration in expected inflation ahead. If, in the survey carried out before Copom's May meeting, expectations for the IPCA in 2023 were at 4%, they are now at 4.6%. It is worth remembering the relevant horizon for monetary policy currently includes only calendar year 2023 and that next year's inflation target is 3.25%.

"We expected that inflation would have already slowed down and the truth is that there is still inflationary pressure that is still very widespread and quite worrying in the composition," notes J.P. Morgan's chief economist for Brazil, Cassiana Fernandez. She also notes that this process has been reflected in the increase of inflationary expectations, especially in the relevant horizon for the Central Bank's actions.

On Friday, J.P. Morgan began to see, in its baseline scenario, an even more extensive cycle of monetary tightening, with a final increase in the Selic in August. Ms. Fernandez notes that the Central Bank has promoted a very aggressive tightening cycle, raising the Selic by more than 1,000 bps since March 2021, which justifies the feeling that the cycle is nearing its end.

“The point is that it is still difficult to calibrate that end. And that is why I expect the Central Bank not only to deliver a 50 points hike, signaled in the last communication, but also to leave the door open for future movements, recognizing that, since the last meeting, there has been a worsening in the inflation scenario,” she says.

Fernando Gonçalves, superintendent of economic research at Itaú Unibanco, says it is unlikely that the Central Bank will interrupt the tightening cycle on Wednesday. “Even with the slightly better IPCA number for May, the cores are still extremely high and inflation has all the peculiarities of being persistent, quite widespread,” he says. Itaú understands that Copom may indicate it foresees a new Selic increase in the August meeting. For Mr. Gonçalves, the statement may be similar to the last month’s decision, in which the committee gave strong signals, but opted to leave the next steps of monetary policy open, depending on the data.

Besides the two 50-point interest rate increases expected by Itaú, Mr. Gonçalves believes that in order to materialize the process of convergence of inflation expectations to the target, interest rates will need to remain at a high level for a very long period. “We can only see a cut in interest rates in the middle of next year. We know that long periods of relative stability in the Selic are not common in Brazil, but it will need to remain stationary to start exerting a greater influence of interest rates on the economy,” he argues.

Valor’s surveys have already captured an upward trend in expectations for the Selic rate at the end of 2023. Before the Copom meeting in May, the midpoint of the projections pointed to a basic interest rate of 9% next year. Now, the expectation is for a Selic at 9.75%, when bets that it will remain above 10% have increased.

The effort to try to cheapen fuel prices via tax exoneration is a fact expected to increase the uncertainties in the decision. “It has a considerably large deflationary potential, but the impacts would be temporary. Besides, the measures imply a worsening of the fiscal framework. As the discussion is ongoing, it may enter laterally in monetary policy via the balance of risks,” says economist Leonardo Costa, with ASA Investments.

For him, the measures worsen the balance of risks for meeting the targets in 2023. “Observing the attempts to control administered prices, I consider it an additional risk for the balance next year. Obviously you gain in inflation in the short term, at the cost of higher inflation in the medium term,” he points out.

Elisa Machado, chief economist at ARX Investimentos, who expects a Selic at 13.75% in the cycle, also believes that Copom may leave the next steps open, given the increased uncertainty and risks.

“Not only because of this view that there is no relief on the inflation side, but also because of these changes in [sales tax] ICMS, [social taxes] PIS/Cofins... On the one hand, this represents an increase in fiscal risk and. On the other hand, there would be a reduction of inflation in 2022, which would rise again in, disrupting the relevant horizon and throwing up inflation expectations for 2023,” emphasizes Ms. Machado.

Camila de Faria Lima, chief economist at Canvas Capital, defends a more open communication by the Central Bank given the high level of uncertainty. “However, I understand that if the Copom is effectively foreseeing the end of the high cycle, it would be better to make this vision explicit and, thus, guide market expectations,” she says. For her, this could happen with the indication of yet another residual hike or with the indication that the hike to be implemented this week marks the end of the cycle.

In its basic scenario, Canvas projects the Selic at 13.25% at the end of the cycle and 10% in 2023. Ms. Faria Lima recalls that the basic interest rate is already at a very contractionary level and that the most forceful effects on the economy are expected to appear in the second half. “Taking these aspects into account, in my opinion it is completely justifiable, in the scenario we have, to establish a credible inflation target for next year, extending the convergence to the center of the target to 2024,” she says.

Victor Candido, chief economist of RPS Capital, also adopts in his basic scenario the end of the cycle this week, with the Selic at 13.25%, although he points out the risks of a new high in August. For him, the Central Bank has already fulfilled the main part of its cycle and now only a “fine adjustment” remains. “I believe it will make the 50 bp hike that is priced into the curve and say it needs to evaluate the international scenario, the new internal risks and see how inflation itself will behave,” he predicts.

Source: Valor International
<https://valorinternational.globo.com/>

06/13/2022

FOREIGNERS TO GET MORE SPACE IN GOVERNMENT PROCUREMENT

Brazil takes to WTO proposal to expand access of companies in public bids

In negotiations to join the Agreement on Government Procurement (GPA) of the World Trade Organization (WTO), Brazil will make this week a new offer that expands accession for foreign companies in the country's public procurement. This includes giving more room for foreigners to participate in bids in financial services subsectors and also in more states.

On Monday, Brazil will also submit to the WTO the request for accession to the organization's Agreement on Trade in Civil Aircraft, as revealed by the Economy Ministry's secretary of foreign trade, Lucas Ferraz, who is in Geneva for the conference of trade ministers.

The secretary said the negotiations to enter the GPA are advanced, "with preservation of our public policy space, especially the one focused on stimulating small and medium enterprises, health, and science and technology." For him, "Brazil's joining the GPA will represent a turning point in the fight against corruption in public procurement in the country, increasing the efficiency of public spending and aligning Brazil's regulatory framework with international best practices."

According to the secretary, after the internal consultation process, "the country will be able to make some movements in financial subsectors," confirming that this includes the insurance area.

So far, Brazil has increased to 10 from 6 the number of states, plus the Federal District (Brasília), that will allow foreign participation in public procurement of goods, services, and works. But industrialized countries are asking for the inclusion of states with "substantial procurement volumes," such as São Paulo, Rio de Janeiro and Bahia. Mr. Ferraz informed that the number of states to be presented in the new offer will be substantially higher. "In recent weeks, we have had strong demand from federal entities to join the agreement, after clear evidence of its benefits for public administration," he said.

The expectation was that it could be accepted at the current WTO ministerial conference in what is known as the "anti-corruption deal" in global trade rules. But the appetite of industrialized countries is great and demands for further concessions continue.

Australia presented new demands last week. One of them is for Brazil to offer access also to bids in construction services of the Ministry of Defense. It also asked the inclusion in the procurement list of the National Nuclear Energy Commission and the Brazilian Space Agency.

Brazil had already signaled that it could improve its offer but warned its partners to keep their feet on the ground, because it would not give the full opening demanded by some. The Brazilian evaluation is that what is on the table is already an ambitious offer, especially being the first Latin American country to join this agreement.

As for seeking accession to the WTO Agreement on Trade in Civil Aircraft, the goal, according to the Economy Ministry, is to try to facilitate the country's access to a world market estimated at around \$3 trillion. Brazil is the only relevant aircraft producer and founding member of the WTO still outside the agreement, which came into force in 1980 and brings together 33 members of the organization.

This agreement eliminates the import tax on civil aircraft, their parts, pieces and other goods used in air services. It also prohibits quantitative restrictions, licenses, and certifications that restrict trade and are contrary to the General Agreement on Tariffs and Trade (GATT).

A participation in the agreement, according to Brazil, has the potential to reduce the negative impact of the Covid-19 pandemic on the airline industry, aggravated by the war in Ukraine, according to the government.

Source: Valor International
<https://valorinternational.globo.com/>

06/14/2022

U.S. SEES NO POLITICAL CLIMATE TO LIFT TARIFFS ON BRAZILIAN STEEL

Restrictions on Brazilian steel were imposed in 2018 during the Trump administration

The Biden administration has signaled to Brazil that it will not meet so soon the demand to review the quotas that limit the ingress of domestic steel in the U.S. market — although it has already made agreements with the European Union and Japan.

Valor has learned that the U.S. deputy secretary of commerce, Don Gaves, advised Brazilian representatives when he was in Brasília about a month ago that there was no political climate yet in the U.S. to deal with the review of the situation of Brazilian steelmakers.

However, the number 2 at the Commerce Department “promised to make the best efforts,” according to a source. When asked recently in an interview about lifting tariffs on steel from China, the U.S. Trade Representative Katherine Tai said that “with respect to the tariffs, our approach, as with everything in this relationship, is to be strategic.”

The restrictions on Brazilian steel were imposed in 2018 during the Trump administration, despite President Donald Trump ideological affinity with the Bolsonaro administration. That was when Mr. Trump, amid trade tensions with China, decided that foreign steel threatened to “weaken national security” and imposed an additional 25% tariff on imports of steel products and 10% on aluminum imports, causing tremendous irritation in Washington allies who saw the measure as retaliation.

Of the \$2.3 billion of steel that Brazil exports on average to the U.S. per year, 85% is semifinished products, that is, raw material for the American steel mills to make the final product. Under President Joe Biden, the U.S. and the European Union reached in October an agreement whereby Washington kept the additional tariffs, but exempted a specific portion, allowing European companies to sell a certain “historical volume.”

Later, Washington struck a deal with Japan, another major ally, eliminating tariffs since April within an import quota of 1.25 million tonnes of Japanese steel — a volume still lower than the 1.8 million tonnes exported by Japan in 2018.

In the case of Brazil, the assessment in Brasília is that the Biden administration has no appetite to deal with trade. Last week, during the Summit of the Americas, the U.S. insisted on redesigning supply chains amid the new geopolitical situation, but showed nothing concrete, according to a source.

Source: Valor International
<https://valorinternational.globo.com/>

06/14/2022

ANALYSIS: COPOM'S SCENARIO FOR OIL CALLED INTO QUESTION

Future curve suggests barrel north of \$110 by the end of the year, 10% above Central Bank's main scenario

The main scenario for oil prices used by the Central Bank's Monetary Policy Committee (Copom) to fine-tune its interest rate policy is being called into question amid new pressures on the commodity.

The Central Bank adopted a scenario A for oil at its March meeting to avoid dealing with the volatility of prices, which at the time were over \$120 a barrel.

Instead, the committee assumed that “oil prices follow approximately the futures market curve until the end of 2022, ending the year at \$100/barrel, and then start increasing 2% per year in January 2023,” according to the English version of the minutes of the 245th meeting of the Copom.

Lately, however, the future curve suggests a barrel north of \$110 by the end of the year, which means a 10% higher price. The Brent oil price was around \$120 a barrel earlier on Monday.

Eto Sanchez, the chief economist of Ativa Investimentos, says that a portion of the fuel price used in the Central Bank’s models is formed from the opinions of industry experts. “Because it is discretionary, it can end up mitigating the worsening,” he said.

Mr. Sanchez estimates that the price of gasoline in the domestic market is about 35% below international prices. Many other market economists are finding similar spreads in their calculations, around 30%, and some believe that Petrobras will soon be forced to raise its prices.

This spread tends to mitigate at least part of the price drop expected if the government achieves all its objectives with a package aimed at cutting federal and state taxes, partly temporarily.

The fuel price hikes surprised Central Bank’s directors, who in recent statements have highlighted the fact that the Brent oil price is no longer such a reliable indicator of the evolution of prices of oil products.

As many had predicted, the adoption of scenario A by the Central Bank has made it difficult to keep inflation expectations in check. Many analysts have maintained the previous practice of projecting inflation based on the current price of the product.

This is one factor among many others that explain the detachment of the Central Bank’s inflation projections for 2023, which at the Copom’s meeting in May was 3.4%, from market projections.

Market expectations for inflation in 2023 are already at 4.6%, according to an analysis published Monday by Valor, compared with the Central Bank’s target of 3.25% for the year.

Source: Valor International
<https://valorinternational.globo.com/>

06/15/2022

CHAMBER OF DEPUTIES PASSES BILL THAT REDUCES TAX ON FUEL, ELECTRICITY

Federal government pushed bill through Congress to try and fight high inflation

Chamber of Deputies passed Tuesday by 308 votes in favor and none against a complementary bill that cuts state tax ICMS on fuel, electricity, communications and public transport. Yet, technical problems in the lower house’s voting system meant that the conclusion will have to occur on Wednesday because two amendments from opposition parties were still pending. After this, the bill must be sent for President Jair Bolsonaro to sign it into law. The problem with the conclusion is the lack of quorum. Most deputies had travel plans and the session on Wednesday, the day before a holiday in Brazil, would be empty. Chamber Speaker Arthur Lira (Progressive Party, PP, of Alagoas) apologized for the failure but determined that the absentees will lose part of their salaries to try and raise the number of voters.

Before the voting system failed, the lower house approved the Senate’s innovation of reducing to zero federal taxes PIS/Cofins and Cide on gasoline, ethanol and natural gas vehicle until December 31, without the need for the government to compensate for the revenue waiver. The exemption is already in force for diesel and cooking gas but has had little effect on final prices.

The bill that reduces the ICMS tax on fuel and energy is another attempt by the government to contain inflation. Earlier on Tuesday, the federal government had requested Petrobras to wait a little longer before increasing diesel and gasoline prices, sources say. The administration wanted the oil company to hold the hikes until the bill to limit the sales tax ICMS to 17% on fuels, power, telecommunication services and public transportation was voted in Congress.

Estimates from sources close to Petrobras indicate that diesel is being sold at the state-owned company's refineries 18% below the import parity price, while gasoline prices are 20% lower. The Brazilian Association of Fuel Importers (Abicom) estimates that gasoline and diesel sold by Petrobras were 16% below the foreign market on Tuesday. The consultancy StoneX calculated the need for a 23.1% hike in diesel and 10.4% in gasoline based on Tuesday prices.

Holding prices has become strategic for the government, given the high inflation and the elections calendar.

Valor found out that there was a meeting on Tuesday, between Petrobras CEO José Mauro Coelho and Minister of Mines and Energy Adolfo Sachsida in Brasília. The meeting was also attended by Petrobras chair Marcio Weber. Fuel price hikes were discussed in the meeting, but the issue was not solved, sources say.

Petrobras would be ready since Tuesday to increase the prices that would partially offset the diesel and gasoline disparity in the refineries. After the request of the government, however, it decided to wait, Valor has learned. Some people believe that Petrobras is unlikely to hold a hike in the very short term, although political pressure may postpone it for a few days.

According to a survey by the National Petroleum Agency (ANP), the price of regular gasoline at gas stations in the Southeast region averaged R\$7.160 per liter during the week of June 5-11. For diesel, the average price in the region was R\$6.794 per liter in the same period.

At the same time, the delay to choose the new nominees for the Petrobras board continues.

The documents of the nominees have not yet all been sent for analysis by the Eligibility Committee (Celeg), linked to the Personnel Committee (Cope), which is in charge of evaluating the candidates' compliance with the company's internal rules and the state-owned company's law.

The change in senior management at Petrobras is part of the government's strategy to try and control fuel prices.

Source: Valor International
<https://valorinternational.globo.com/>

06/15/2022

HIGH PRICES DRIVE BEEF, CHICKEN EXPORTS FROM JANUARY TO MAY

Main destination of Brazilian protein was China, up 91.3% year over year

Driven by China and with significant increases in average prices, the country's exports of beef and chicken grew in May and saw volume and revenue increase in the first months of the year.

The highlight continues to be beef, which faces lower consumption in the domestic market. The exports of this protein (fresh and processed) reached 176,000 tonnes and yielded \$1.08 billion in May, according to data from the Secretariat of Foreign Trade (Secex) compiled by the Brazilian Beef Exporters Association (Abiec). Compared to the same month last year, volume grew 17.5% and revenue was 49.5% higher.

In the first five months of 2022, according to the association, the exported volume reached 887,300 tonnes, 25% more than in the same period of 2021, and revenue grew 55.9%, to \$5.06 billion. The average sales price increased 24.7%, to \$5,700 per tonne.

“This shows that Brazilian beef is being increasingly valued in the international market and that Brazil is consolidating itself as an important trading partner for the buying countries,” said Abiec’s head Antônio Jorge Camardelli in a note.

From January to May, the main destination of protein shipments was China (\$2.9 billion, up 91.3% year-on-year), despite temporary embargoes imposed by Beijing to some Brazilian slaughterhouses because of the country’s Covid-zero approach.

Next comes the U.S. (\$471 million, up 88% YOY), Egypt (\$255.8 million, up 345% YOY) and the European Union (\$212.8 million, up 29.4% YOY).

The exporters of chicken shipped 429,600 tonnes of protein last month, a volume 3.7% higher than in May 2021, the Brazilian Animal Protein Association (ABPA) reported Wednesday. The revenue from foreign sales grew 37.8%, to \$904 million.

“The global inflationary framework, with rising production costs and strong demand for chicken in the foreign market, strengthened the average international prices, [which reached] levels above \$2,000 per tonne,” said ABPA’s head Ricardo Santin in a statement. According to the executive, the exports performance in May helps to offset the impacts of the increase in the cost of inputs used in production (basically corn and soybean meal).

China was the main destination of Brazilian exports, even with the 8.8% drop in volume last month, to 50,200 tonnes. It was followed by the United Arab Emirates, Japan and the European Union, with shipments of 44,800 tonnes (+73.2%), 33,100 tonnes (+3.2%) and 26,300 tonnes (+80.7%), respectively.

From January to May, exports totaled 1.9 million tonnes, or 7.8% more than the same period in 2021. The revenue increased 33.6%, to \$3.8 billion.

Valor International
<https://valorinternational.globo.com/>

06/16/2022

EU’S NEW ENVIRONMENTAL DEMANDS PAVE WAY FOR AGREEMENT WITH MERCOSUR

Bloc reportedly intends to wait for presidential election in Brazil

The European Commissioner for the Environment, Virginijus Sinkevicius, told Valor that by the end of the year, the European Union may present to Mercosur its demands for additional commitments in the environmental front. This would give a new impetus to the bi-regional free trade agreement.

For Pascal Kerneis, managing director of the European Services Forum (ESF), the commissioner reflects the intention to wait until after the presidential election in Brazil, in October. The executive now says that, for the first time in a long time, he is optimistic about the direction of the European Union-Mercosur agreement.

The European bloc, since the beginning of 2021, has been talking about presenting Mercosur with a proposal for a side letter to the negotiated agreement, to mitigate a good number of concerns raised by several member states, mainly involving the protection of the Amazon. Without mentioning internal differences between environment and trade, the commissioner argues that the delay is because the European Union needs to make the side letter compatible with the Green Deal, the European strategy for growth until 2050. The Green Deal is to be reflected in all major policies of the community bloc, including to meet issues raised by the European Parliament.

For Mr. Sinkevicius, the new geopolitical conditions do not influence the directions of the bi-regional agreement. “I don’t think it has a big impact, because we address issues that haven’t changed,” he said, apparently referring to persistent environmental issues in Brazil raised by some European sectors.

Asked if opposition to the European Union-Mercosur agreement had subsided lately, the commissioner replied: "Members of Parliament have the democratic right to raise their questions and I think they are legitimate questions to know whether our trade agreements are in line with our main policies. I think they should be in line."

For Mr. Kerneis, the Brazilian election is on the radar, but what seemingly concerns him is the crisis in Argentina, with high inflation, social demonstrations and other turbulences.

"The stars may not be aligned between Brazil and Argentina," he says. And the European Union needs to look more for the South American market, to compensate for lost business in other parts of the world.

He says, however, that he is now encouraged because the countries that will assume the rotating presidency of the European Union in the coming semesters are very favorable to the agreement with Mercosur. In two weeks, France will hand over the presidency of the European bloc to the Czech Republic, a major automotive producer. In the first half of 2023, it will be Sweden's turn. And in the second half of next year, the presidency will be held by Spain.

The signing of the European Union-Mercosur agreement could thus have a chance to take place in the second half of 2023, with the Spaniards in the presidency of the European bloc, in the expectation of some sources.

The implementation of the free trade agreement between Mercosur and the European Free Trade Association (EFTA, formed by Switzerland, Norway, Iceland, and Liechtenstein) also depends on additional commitments by Brazil (and its partners in environmental protection) with the Europeans, a Swiss representative told a Brazilian negotiator this week in Geneva.

On the other hand, discussions with Asia are moving forward. Mercosur is expected to sign a trade agreement with Singapore in July. After that, it may start negotiations with Indonesia and Vietnam.

The European Union on Friday will relaunch in Brussels the negotiation of a trade agreement with India, one of the countries with the highest growth rate in the world. The expectation is to conclude the understanding by early 2024. The two sides have already been negotiating for 10 years, but the discussions were suspended due to India's resistance to reducing tariffs on wine and car imports.

Source: Valor International
<https://valorinternational.globo.com/>

06/17/2022

COSTS, INTEREST RATES AFFECT MACHINERY SALES

Market is heated and grew until May, but a slowdown is expected in the second half of the year

After falling 31.2% in Brazil between 2010 and 2020, to about 46,000 units, sales of agricultural machinery grew again last year – 26%, to 58,000 units – and are likely to remain strong in 2022, a report by Consultoria Agro Itaú BBA released last week, based on data from the National Federation of Automotive Vehicles Distribution (Fenabrave), shows. But the high costs and interest rates are expected to limit the recovery.

In May, according to Fenabrave, sales increased 35.1% compared to the same month in 2021 and reached 6,100 units, driven by tractors and harvesters. In the first five months of 2022, the total reached 20,200 units, up 36.6% year over year. This increase, Fenabrave said, reflects the increase in producers' income due to the high prices of commodities and occurs despite the strong increase in inputs such as fertilizers.

Yet, as a large part of the inputs for the 2021/22 harvest was purchased in advance, the farmers' margins were preserved and even expanded in the season, whose summer harvest has already ended. Hence the still heated demand for new machines, most of them financed with Moderfrota funds, in the first half of the year. Moderfrota,

the main investment line of the federal government's Crop Plan, is expected to finance around R\$6 billion in the 2021/22 cycle, which will end on the 30th.

But there is concern among sources in the segment about the behavior of demand in the second half of the year, since, for the 2022/23 harvest, which will begin to be sown in August, the costs will weigh more. The forecast is for a reduction in profit margins in the fields, although operationally the results forecast by banks and consulting firms are still attractive. No "collapse" is expected, but a cooling-off is on the radar.

Driven by the 58,000 agricultural machines sold last year, the sales of the segment reached R\$38.3 billion, up 40.3% year over year, according to the Brazilian Association of the Machinery and Equipment Industry (Abimaq). And, according to Abimaq's forecast taken into account in the study, revenues are expected to total R\$40.2 billion this year, up 5%.

The contracting of Moderfrota funds also reinforces the scenario of lower growth. The amount for 2021/22, although in line with the government's strategy of shifting more funds from large to small and medium farmers, is the smallest in this recent recovery of sales. In the 2019/20 and 2020/21 seasons, when the total amount also included a non-earmarked line from Banco do Brasil, there were R\$7.3 billion and R\$7.5 billion in credit, respectively. For 2022/23, neither the volume of funds for Moderfrota nor the interest rates – currently at 8.5% per year and expected to rise because the Selic, Brazil's benchmark interest rate, is higher now – have been defined yet.

As flush farmers are not a Brazilian phenomenon, the country's agricultural machinery exports, which peaked in the second half of the decade of 2000 and then went into free fall until 2020, also recovered last year. There were \$236.6 million in total in 2021, according to data from the National Association of Motor Vehicle Manufacturers (Anfavea), up 23.4% year over year.

According to Anfavea's data highlighted by Consultoria Agro Itaú BBA, most exports continued to be directed to Argentina (\$25.4 million), but the neighboring country was once a much more relevant client. Machinery imports reached \$66.9 million in 2021, compared to \$83.6 million in 2020, and purchases came mainly from the European Union (28.8% of the total) and the United States (25.7%).

Source: Valor International
<https://valorinternational.globo.com/>

06/17/2022

CAOA IS SECOND AUTOMAKER TO HAVE ETHANOL HYBRID CAR IN BRAZIL

Yet, Brazilian group will not give up on electrics, will continue to make internal combustion vehicles

The automotive industry is divided. Some believe that, in Brazil, electrification will only advance with hybrid cars – which run on power or internal combustion and can already be produced in the country. Another part prefers to follow the trend of developed countries and go straight to fully electric cars, which are imported. CAO A Chery has decided to bet on both fronts. It will import and produce vehicles with both technologies and thus be prepared, whichever path is adopted by the country and more accepted by consumers. The automaker is, however, inclined to believe that ethanol hybrid cars will gain space.

This week, the company born five years ago from the union of the Brazilian group CAO A with the Chinese brand surprised the market by detailing the electrification plans it had been emphasizing in its advertisements. It presented five new models – four hybrids and one fully electric. Two of the hybrid cars have already started to be produced in the Anápolis (Goiás) plant, and the others will come from China. The fully electric one, also Chinese, called iCar in Brazil, will be the cheapest in its category. It will cost R\$139,990.

The apparently sudden initiative is, in fact, the result of a process that began to mature six years ago in the CAO A group and four years ago in the Chery division, according to the group's vice president of operations, Márcio Alfonso. "We have reached the point where you can no longer advance in the emission of pollutants with

combustion-only engines,” said Mr. Alfonso, a mechanical engineer with a long stint in Ford before joining CAO, seven years ago.

The arrival of the hybrid line in Anápolis is part of the R\$1.5 billion investment program unveiled in December 2020. It is also the result of a dream cherished by the founder of CAO, the businessman Carlos Alberto Oliveira Andrade, who died in August last year. CAO thus becomes the second automaker to produce hybrid vehicles in Brazil, with models Tiggo 5X Pro and Tiggo 7 Pro. And, like the pioneer in this initiative, Toyota, the hybrids manufactured in Anápolis can be fueled with ethanol.

“The hybrid model is expected to dominate because ethanol is a strategic product for Brazil,” Mr. Alfonso says. The country would be, according to the executive, “an adequate place” for fully electric cars, since it holds renewable power source, with hydroelectric plants, besides the good perspectives regarding solar and wind power generation. “But the consumer’s purchasing power is low,” he says. “It is not clear, from what we see in Europe, what to do with the electric car after the warranty period.”

For Mr. Alfonso, there is no point in bringing cars that few can buy. According to him, the number of consumers who bought vehicles over R\$180,000 in 2021 does not reach 150,000. The market for new cars totaled almost 2 million. Therefore, the company will make a composition between hybrids and fully electric cars and will continue to produce combustion models. “We need to have all the cards up our sleeve for when the government defines which technologies will receive incentives,” he said.

Chery’s hybrid models will cost between R\$159,990 and R\$269,990. The most expensive of them, the Tiggo 8 Pro Plug-In Hybrid, an imported car, will be of the plug-in type, a hybrid that allows charging in the socket in addition to the combustion engine. The advantage of the model is fuel economy and better control of emissions.

The hybrid technology used by CAO Chery will use the “light” hybrid technology, with a 48v battery, which costs less than a conventional one. In this case, the electric motor is less involved. According to Mr. Alfonso, one advantage of the hybrid model is to allow, during the development of new generations of the same car, the electric part to gain more space. By this reasoning, a hybrid model can become increasingly “more electric.”

According to the executive, the hybrids will represent 30% of the production in Anápolis. The idea, he highlights, is to electrify the line more and more. For the time being, the production of fully electric vehicles is not foreseen. No company produces this type of vehicle in the country.

The Anápolis plant was already prepared to receive lines with the new technology. The same does not happen with the Jacareí unit, in São Paulo, where production was suspended at the beginning of May.

The São Paulo-based plant, which the CAO group acquired when it joined Chery, has an older manufacturing system. According to Mr. Alfonso, it is necessary to adapt the plant with equipment that accepts the most modern platforms, of electrified vehicles. The expectation is to complete the process in two years.

With the end of production in Jacareí, almost all the almost 600 workers were dismissed. Mr. Alfonso says that the company’s management was reluctant to take this attitude “in an election year and with an unstable economy.” He added, “But there is no point in continuing to invest in an old platform.”

Source: Valor International
<https://valorinternational.globo.com/>

06/20/2022

HEALTHCARE, TECHNOLOGY DRIVE BUSINESS OPENINGS

Entrepreneurship is the way out of a weak labor market

The gradual return of the flow of people and the change in habits, with the expansion of remote work and the acceleration of digitalization, generated an increase in new firms in 2021, but with a greater bet on activities like healthcare, technology and technical services, which had already emerged before the Covid-19 pandemic and are

now gaining ground more quickly. Entrepreneurship is also growing as an alternative to a labor market that is still recovering, according to specialists.

Although commerce in general remains the leader in the activity profile of new companies, the sector has lost space to segments linked to healthcare and social services, technical and information technology (IT) activities, or professionals who, supported by the flexibility of remote work, have decided to become entrepreneurs.

At the same time, the accommodation and food group, which includes hotels and restaurants, lost space, although it maintains a recovery curve in new businesses. This is the general trend verified by data about the opening of companies from boards of trade in the states of São Paulo, Bahia and Paraná. The three states accounted for about 40% of all new businesses registered last year in the country, according to data from the federal government's Business Map.

In São Paulo, there was a record in the start of new companies in 2021. According to data from Jucesp, the state's board of trade, the number of new businesses totaled 288,500 last year, up 28.7% compared to 2020 and 28.5% against 2019, the year before the pandemic. Terminations also increased, but with a much smaller number and in a more decelerated way.

In 2021 a total of 120,900 companies closed doors in São Paulo, up 16.2% from the previous year and 0.5% against 2019. The numbers for the state do not include data from Individual Micro-Entrepreneurs (MEIs).

A look at the data over a longer period shows a change in the sectors that today attract those who want to open their own business. In São Paulo, the general commerce group, including retail and wholesale and the sale of vehicles to end consumers, represented 33.8% of the new companies in the state in 2014, but has gradually lost share over the last few years, reaching 26.8% last year. The data indicate this shift was already underway before the pandemic. In 2019, the sector's share was 28.5%. That is, the number of new businesses in the segment grew over the seven years, but at a slower pace than the total number of new enterprises.

The commerce space was taken up by health and social services activities, which jumped to 9.6% last year and to 6% in 2019 from 2.5% in 2014. Information and communication, which brings together IT-related areas, advanced to 7.7% last year and 6.6% in 2019 from 4.6% in 2014. Professional, scientific and technical activities – which include diverse branches such as consulting, auditing, business management, firms in architectural, engineering, advertising and market research services – advanced to 12.1% in 2021 from 6.78% in 2014.

The state of São Paulo continues with a record number of new companies in 2022. From January to May there were 123,500 new businesses, or 8.4% more than in the same period in 2021.

In Bahia and Paraná, the dynamics of change in sectors were similar. With a total of 37,827 new companies in 2021, Juceb, Bahia's board of trade, also recorded a historic peak last year and a change in the formation of new businesses over a longer period. From 2014 to last year, the share of general commerce among new companies opened in the state, including headquarters and branches, fell to 40.5% from 45%.

Even in a state recognized for its tourism vocation, the share of lodging and food ventures, a group in which restaurants and hotels are included, dropped to 4.1% in 2021 from 7.1% in 2014. In 2019, the year before the pandemic started, the share was 5.1%, showing that the segment, although growing, was already expanding at a slower pace than other activities. The data for Bahia do not include MEIs.

The data from Jucepar, Paraná's board of trade registry, includes MEIs and also points to a record number of new companies in 2021, with a total of 268,440 companies, an increase of 14.8% compared to the previous year. Also among Paraná companies, commerce in general is the main sector among new businesses, but its share fell to 26.5% in 2021 from 32.3% in 2015. There was an increase in the participation of professional, scientific and technical activities, health and social services, and information and communication. Together, these segments advanced to 14.1% from 8.7% in the same period.

Carla do Nascimento, an economist at the coordination of economic situation of the Superintendence of Economic and Social Studies (SEI) of the Bahia government, says that the advances in some activities were accelerated by the pandemic, but are within a change that was already happening as a reflection of technological innovation and increased demand. This is the case of the health and information technology sectors, she points out.

New businesses in health and social assistance advanced to 9.5% from 4.8%. Retail and even sectors linked to tourism may have felt the economic downturn. Ms. Nascimento recalls the period covered includes 2015 and 2016, when the country's GDP contracted, without a complete recovery from 2017 to 2019. In 2020 there was the recession within the pandemic, with recovery in 2021.

The economic contraction of the pandemic, explains the economist, led many entrepreneurs to close their doors in 2020 and part of 2021. With the recovery of the economy last year, however, there was a bet on new businesses. At the same time, with the advance of digitalization and remote work, people who lost their jobs or even people who had jobs decided to bet on their own enterprises, which also, she says, can help explain the performance of the group of professional, scientific and technical activities, which advanced to 7.6% from 4.9% in 2014.

Ademar Bueno, head of Jucesp, points out that the pandemic has changed the work system of many professionals. In some activities that were almost exclusively done in person, he says, they started to work only remotely during the most severe period of the health crisis and, with the most recent opening of the economy, the hybrid system was adopted. This led to a professional and activity reorganization that also required the start of new companies, he says.

Mr. Bueno also points out that about 40% of new companies set up in São Paulo have among their partners some tax ID number that is already in another company. It is someone who closed a business that broke down, he says, and who, after regularizing the situation, decided to start up a business again. He points out that programs offered by the state government have helped in this regard.

Despite the fact that the accommodation and food group has lost share in the start of new companies – to 4.8% last year and 6.3% in 2019 from 7.7% in 2014 –, Mr. Bueno points out that bars and restaurants still remain a big bet for new businesses. In the state of São Paulo, according to him, 40 companies are opened in this area per day, on average. Closures are also high, about 30 a day.

Source: Valor International
<https://valorinternational.globo.com/>

06/20/2022

NEW PROJECTS MUST CONSIDER COST OF EMISSIONS, TOTALENERGIES SAYS

Emissions must be priced even in activities in countries still lacking a regulated carbon market, like Brazil, executive says

Companies that want commitments to sustainability need to start including the cost of carbon emissions in their operations, said Charles Fernandes, managing director and country chair for Brazil at TotalEnergies.

The executive believes that emissions must be priced, even in those activities in countries like Brazil that still lack a regulated carbon market.

“Every company with commitments to sustainability has to price in this matter. That way, it sends a message about which is the right direction for the capital,” he said.

Estimating costs associated with carbon in each project helps companies not to push to the back burner matters that may turn them less viable in the future, Mr. Fernandes said.

The French company's executive also highlighted that pricing emissions forces every investment to be as efficient as possible.

“When we launch a project today, we estimate the price of carbon to evaluate if the initiative is still robust in a scenario in which emissions have a price. In our view, companies have the responsibility to start pricing in the vision that carbon will have a price five or 10 years from now. This way, investment decisions will be aligned to that,” he said.

The debate about voluntary and regulated CO2 markets is related to the transition to a low carbon economy in search of tackling climate changes.

The executive believes that the debate about taxing carbon will gain ground in Brazil in the next three years. "Brazil does not price emissions yet, but companies need to start setting a price for that," he said.

Last month, the federal government published the decree that created a carbon market in Brazil. Mr. Fernandes said that it is still unclear when companies will start to effectively pay for emissions in the country. Yet, this is an "unavoidable" trend, he said.

"In Europe, there is already a market and, depending on the level of emissions, the company has to pay a given cost for the emissions, which changes according to the carbon price in the market. This is the trend in the world," he said.

In the context of the energy transition, TotalEnergies defined that it will set aside 25% of global investments to renewable energies. Another slice of 25% will be injected into projects for the transition to a low-carbon economy, which is the case of liquefied natural gas projects.

As a result, the investments to maintain the current businesses in the oil and gas industry will receive only 50% of the total investments.

In Brazil, TotalEnergies currently produces 66,500 oil barrels a day and 2.5 million cubic meters of gas a day, data by the National Agency of Petroleum (ANP) show.

The low cost and the low rate of emissions of oil and gas produced in Brazil turn the country into a key region in the company's portfolio, Mr. Fernandes said.

In the renewables segment, the company works through subsidiary Total Eren, which totals 300 megawatts in solar and wind generation assets in operation in the country.

The company has also shown interest in investing in offshore wind power generation and has a team tasked with studying opportunities in this segment here. Brazil does not have offshore wind power projects, and regulations for the segment are still in the making.

"We are interested, and we count on regulation to be defined to move forward with that," said Fernanda Scoponi, senior business developer at TotalEnergies, at an industry event this week in Rio.

Source: Valor International

<https://valorinternational.globo.com/business>

06/21/2022

CSN prepares plan to buy Samarco Mineração

Idea is to meet interests of shareholders – Vale and BHP Billiton – and the company's creditors, sources say.

The Steinbruch family's CSN group, which aims to become a global iron mining giant, is preparing a plan that may solve the imbroglio that the judicial reorganization of Samarco Mineração has become. The iron ore pellet producer reported more than R\$50 billion in debts when it filed for protection from creditors on April 9, 2021.

The idea is to meet the interests of shareholders – Vale and BHP Billiton – and the company's creditors, sources say. The two sides failed to reach an agreement on the recovery plan drawn up by Samarco and its owners. As a result, it was rejected at the creditors' meeting on April 18.

CSN hired Ricardo Knoepfelmacher's consulting firm, which is specialized in corporate restructuring and complex cases involving corporate and creditor disputes like Samarco's. Any deal between the parties is better than litigation – to where the case is heading if there is no agreement, according to a source.

Preliminary talks have already been made with Samarco's shareholders and representatives of the financial creditors – 17 foreign distressed funds. Among these are Oaktree, Goldentree, Solus, Monarch and Silverpoint.

The group holds more than R\$23 billion in bonds issued by the company. These bonds refer to loans made by Samarco before 2015. These creditors did not agree with the terms of the company's plan and submitted to the judge an alternative plan, which is being analyzed.

The group's plan includes, among several points, a capital injection of 38% of the debt in the form of bonds, which removes Vale and BHP from the group that controls the mining company. The plan is referred to as "Nova Samarco" and one goal is to seek, soon after, a strategic investor. In other words, a company that operates in the mining industry. This means an opportunity for CSN.

Vale and BHP supported a second, alternative plan – much less radical than the one from the financial creditors – from two workers' unions from Minas Gerais and Espírito Santo. Basically, they made some improvements to the recovery plan made by Samarco.

Both plans were submitted on May 17 to the judge in Belo Horizonte in charge of the suit, but according to a source familiar with the case, any ruling could still take 45 to 60 days. A conciliation hearing for shareholders and creditors with the judge has been scheduled for this Tuesday. At the first moment, the meeting is aimed at defining whether there will be mediation, according to information provided to Valor.

CSN has a difficult task ahead – mainly to convince Vale to listen to its proposal. The mining company is unwilling to do so. The others seem more open to listening to what it has to offer. If the funds' plan is accepted, the two shareholders will be trounced in the clash and will go to court, a source said.

If it succeeds with an attractive proposal, it will be a great opportunity for CSN to take control of Samarco. CSN's owner, Benjamin Steinbruch, famously avoids entering a business if he will not be able to be the controlling shareholder.

Samarco is in the condition of being again the large producer of iron pellets it was before 2015, when it sank together with the tailings from the collapse of the Fundão dam. The company, which can handle 30 million tonnes a year, resumed operations at the end of 2020 with only 26% of its capacity.

Pellets, as they are known, are a premium product in the international iron ore market.

CSN Mineração, which went public in February 2021 and already produces around 33 million tonnes of fine ore per year, will start making a superfine material known as pellet-feed, which is used as a raw material in the manufacture of pellets. This way, it would integrate its production – as Vale, which has several pellet plants in the country, already does.

BHP and Vale prepared a joint note. "BHP Brasil and Vale inform that Samarco is not for sale and affirm their support for the restructuring plan filed by Samarco's worker unions and other creditors on May 18. Both shareholders are focused on preparations for the conciliation hearing tomorrow [Tuesday] and on ensuring Samarco's sustainability and its responsibility to the remediation efforts, which are not addressed by the creditors' plan."

Ricardo Knoepfelmacher, CSN and the creditors did not immediately reply to the requests for comment.

Source: Valor International
<https://valorinternational.globo.com/>

06/21/2022

GOVERNMENT SPEEDS UP CHANGE IN FOREST CONCESSION

Law update to end restrictions seen as positive by specialists

The Bolsonaro administration is betting on a bill being considered by the Chamber of Deputies to update the law on forest concessions and unlock the auction of nine areas this year. The proposal, authored by an oppositionist federal deputy, has already been approved by two committees and allows the use of these forests for the carbon market, which is growing rapidly worldwide.

The current legislation prohibits forests under a concession from being used in the carbon market (in which interested companies pay to maintain the vegetation of a place and, by doing so, offset their own emissions). The bill ends with this restriction, a move specialists understand as positive to draw interest in the sustainable exploration of these forest areas.

Jaqueline Ferreira, a portfolio manager at Instituto Escolhas, says that countries like Peru and Bolivia already explore the carbon market in the Amazon and that Brazil “is lagging behind.” “These are areas that need revenue to maintain themselves and the concessionaires themselves need diversification of income sources to maintain them,” she said. A study by the institute shows that in the region there are 37 areas with the potential to generate R\$125 million per year in this market – revenue that, according to the project, will be shared with the federal government.

She regrets, however, that the Environment Committee in the Chamber of Deputies has removed from the blueprint the possibility of periodic review of the contracts. “One of the main problems of the concessions is precisely price volatility. Today the main activity is the sustainable management of wood and there is a lot of competition with the illegal market. The possibility of reviewing the amounts paid, logically with rules, would be an important gain,” she said.

One author of the project, Deputy Rodrigo Agostinho (Brazilian Socialist Party, PSB, of São Paulo) defends that concessions are the best model to protect forests against illegal logging and deforestation. “I know that it will be criticized by environmentalists who think that this means selling the forests, but today there are two very efficient strategies in the world to keep forests standing: payment for environmental services, in the case of private areas, and concessions, in the case of public areas,” said Mr. Agostinho, part of the opposition to the government.

For Mr. Agostinho, the current law is very bad and has slowed down these operations. He points out that the government estimates that it is possible to grant 43 million hectares to the private sector, an area larger than the entire territory of Germany, but that only 1 million hectares have been granted after more than a decade. “And these contracts are very focused on the extraction of wood, which suffers with the illegal market. In the world, what has been working well are concessions for tourism, for the production of medicines and cosmetics or forest agriculture, like heart of palm, chocolate and açaí,” he highlighted.

The proposal modernizes the rules for the bidding and environmental licensing of these areas. One of the main changes is to invert the order of the bidding process. Today, the documents of each company are analyzed, with possible contestations, before the proposals are checked. If the project is approved, only the winning company would have its documents checked.

In addition, the project transforms the forest allocation plan prepared by the government from annual to multi-year, every four years. The objective is to allow the employees of the Brazilian Forest Service (SFB) dedicated to this task to be free to take care of other functions, such as the inspection of the concessions.

The Finance and Taxation Commission approved the bill last week, with Deputy Sanderson (Liberal Party, PL, of Rio Grande do Sul) as rapporteur. The federal government put the matter on its list of priorities for the year and even accepted, in order to approve it, the voting of other proposals with which it disagreed, such as updating the revenue ceiling for companies included in the Simples Nacional, a simplified tax regime for small businesses. “The government is very interested in speeding up this project to attract private-sector companies to a business that, with the current legislation, is prohibitive. There are areas waiting for this to go to auction,” Mr. Sanderson said.

The Bolsonaro administration included 22 projects in the Investment Partnerships Program (PPI) in 2020, but so far only four areas have been tendered and contracted. According to PPI data, the 18 contracts signed so far had yielded R\$70 million in grant payments and helped preserve forests with sustainable management.

The bill's consideration in Congress is not yet fully defined. Two ways are being discussed: to vote in the Constitution and Justice Commission (CCJ), where the blueprint would have conclusive approval, without needing to go through the plenary; or to present an urgent request to take it directly to the plenary, which Chamber of Deputies Speaker Arthur Lira (Progressive Party, PP, of Alagoas) has already signaled he agrees with if there is a consensus among the parties.

Source: Valor International
<https://valorinternational.globo.com/>

06/21/2022

China-controlled TCP plans to invest R\$370m by 2023

Investments will be directed to expansion of areas for refrigerated cargo, purchase of cranes

Terminal de Contêineres de Paranaguá (TCP), controlled by China Merchants Port, will start an investment plan of nearly R\$370 million, which will be injected by the end of 2023. The goal is to increase capacity, both for storage and cargo handling.

Part of the funds will be used to purchase 11 RTG cranes, which are used to move containers. The investment was already part of the obligations of the concession, but the decision to acquire them at this time was due to the tax exemption window opened with the extension of Reporto, a tax regime that suspends the collection of federal taxes on imports of equipment in the industry, until the end of 2023.

The company's goal is to expand its cargo-handling capacity by 15%. The investment plan also includes a 43% expansion of the area destined for reefer containers, which will reach 5,178 sockets. One of TCP's main cargoes is frozen meats – in 2021 the terminal accounted for 35.4% of Brazil's chicken exports.

The container yard will also be expanded, by 20,000 square meters. This will be possible through the optimization of the terminal's structures, which currently occupy 480,000 square meters.

The need for expansion emerged, in part, from the logistical chaos generated by the pandemic. In late 2019, just before the health crisis, TCP completed investments that expanded its area by 150,000 square meters. At the time, the expansion was seen as being enough to meet the demand of the next decades, said Thomas Lima, the company's chief commercial and institutional officer. "With the pandemic, we had our capacity taken right away. All the parameters changed," he said.

During the Covid-19 crisis, global logistics chains went through complete disorganization amid port closures, interruptions in production lines and delays in clearance. The effects seen since 2020 include clogged ports, container shortages and crammed warehouses.

In addition to the pressure generated by the pandemic, cargo handling is up. The volume of full containers handled by TCP grew 5.9% in 2021 compared with the previous year. In the first quarter of this year, it rose again – by 2.3%.

In the executive's view, the perspectives are positive. "The Port of Paranaguá is very focused on agribusiness, which is a growing industry, despite the country's GDP. The world is consuming more meat, and this tends to boost cargo-handling operations."

Mr. Lima acknowledges that the pandemic still impacts operations. Recent lockdown measures in China have reduced the number of empty reefer containers coming into the country. This could create a bottleneck for meat

exports, which need the equipment. “Exporters have their warehouses full because slaughtering has not stopped,” he said.

The executive considers that it is complex to foresee when the situation will be normalized. However, for him, the trade flow between Asia and Brazil is expected to normalize at the end of this year if China refrains from imposing new Covid lockdown measures.

Source: Valor International
<https://valorinternational.globo.com/>

06/22/2022

MITSUI MAY BLOCK SALE OF GASPETRO

Operation may suffer new setback as Mitsui rejects format proposed for deal

On the eve of decision of the antitrust regulator CADE on the acquisition of Petrobras's 51% stake in Gaspetro by Cosan's Compass, the R\$2 billion operation may suffer new setbacks.

Valor has learned that Mitsui Gás e Energia, the state-owned company's partner in Gaspetro, rejects the most recent format proposed for the deal. Compass would sell up to 12 of the 18 distribution companies in which Gaspetro holds a minority stake. Mitsui has also indicated that it is likely to exercise its right of first refusal.

Compass informed in March that it would not keep all the distributors, in a move to seek the approval of the CADE. In the same month, the General Superintendence of the antitrust body approved the deal without restrictions. According to a source familiar with the group, the company has already committed to sell seven distributors to one group and five to another.

In addition to Mitsui, local distributors have also signaled that they may exercise this right in relation to Gaspetro's stake, should Compass decides to sell it after the acquisition.

Mitsui informed the antitrust agency that it had no interest in buying the Petrobras stake in August last year. However, after the change in the proposal of Compass, it appealed to the rapporteur of the case in CADE, Luiz Hoffman, asking that the right of first refusal can be evoked because the deal was modified. Under the new format, it jeopardizes its business strategy, the company said.

In the e-mail message, which is public but contains restricted excerpts, Mitsui asks that this right can be exercised by any partner of the local distribution companies. “At that time [of the option not to exercise the right of first refusal], it was unthinkable that the sale by Petrobras of its equity interest in Gaspetro to a third party — in this case, to Compass — could/would hinder the investments made by Mitsui Gás over the years,” it says.

If the CADE approves the deals, Compass would hold 80% of the natural gas distribution market, which increases market concentration, sources say. In addition to Gaspetro, the company owned by Cosan bought Sulgás, a gas distributor in Rio Grande do Sul, in a privatization auction held in October, for R\$927.79 million.

Mitsui has direct participation of 41.5% in eight distributors: Algás (Alagoas), Bahiagás (Bahia), Cegás (Ceará), SCGás (Santa Catarina), Copergás (Pernambuco), PBGás (Paraíba) and Sergás (Sergipe), besides other participations. According to one source, in case Mitsui exercises its preference right, the result will be market concentration, giving rise to a monopoly in natural gas distribution.

Last week, Mitsui Gás CEO Tadaharu Shiroyama met distributors in Ceará and Pernambuco to talk about investments, which reinforced the perception that the Japanese partner would be willing to keep Gaspetro's slice.

Mitsui Gás e Energia did not immediately reply to a request for comment. Compass and Petrobras declined to comment.

For those who follow the matter, the fact that Mitsui Gas will take Petrobras's share in Gaspetro instead of Compass would be a "lesser evil," since the Japanese company has business only in gas distribution while Cosan's subsidiary has verticalized operations, and is no longer independent as recommended by the term of cessation of conduct signed between the CADE and Petrobras. Compass operates in the gas trading market, import infrastructure, with a liquefied natural gas (LNG) terminal under implementation, and transportation.

Compass faces resistance from associations of sectors with direct operations in the natural gas market, which intend to convince the CADE that the approval could pave the way for the formation of a monopoly in natural gas distribution.

Associations interested in the matter filed appeals against the deal. This was the case of the Brazilian Association of Large Industrial Energy Consumers and Free Consumers (Abrace), the Association of Gas Pipeline Transportation Companies (Atgás), the Brazilian Association of Oil and Gas Exploration and Production Companies (Abep) and the Brazilian Glass Industries Association (Abividro). On Tuesday, the Brazilian Association of Independent Oil and Gas Producers (ABPIP) filed a manifesto with the CADE against the acquisition by Compass, aligning itself to the other associations.

Even the National Petroleum Agency (ANP) appealed at the end of March against the deal. In the appeal, the agency said Compass would become the controlling shareholder of Gaspetro, inheriting all the prerogatives that previously belonged to the oil company, including the appointment of commercial directors of the distributors, from the respective shareholders' agreements – a situation that would imply open conflicts of interest.

Despite the effort, the purchase must be approved with "cosmetic restrictions," according to the evaluation of sources that follow the case, with a pessimistic tone in relation to the outcome of the deal. For these sources, who spoke on the condition of anonymity, the assessment is that any restriction imposed by the CADE will not mitigate the effects of the deal. The sale of the participation in Gaspetro, inclusive, is part of the agreement signed between the CADE and Petrobras to encourage competition in the natural gas market, which would no longer occur since then.

"It is a discussion contrary to the one taken in the past [by the CADE]. It ends with the integrated gas market," says one of the executives heard by Valor. For another executive, who acts as one of the stakeholders in the issue, with the approval of the purchase, the country "will begin to see unbridled unregulated capitalism" in the gas market.

In its defense, Compass alleged to the antitrust agency that the operation is "unable to replicate the previous scenario, of Petrobras's transversal dominance," in particular because "it does not and will not operate in the structuring links of the natural gas chain (production and transportation), which represent the main barriers to the sector's development."

Another point to be observed, points out another source, is that the current president of CADE, Alexandre Cordeiro Macedo, should declare himself disqualified from judging the issue because he actively participated in the formulation of the agency's term of commitment with Petrobras, an initiative from which the oil company made divestments in several fronts, including natural gas. In addition, when he led the agency, Mr. Macedo authorized the participation of the Cosan group in the Gaspetro auction.

Source: Valor International
<https://valorinternational.globo.com/>

06/22/2022

BRAZILIAN GDP GREW 2.8% YOY IN APRIL DRIVEN BY HOUSEHOLD CONSUMPTION, SERVICES

Indicator was up 0.3% in comparison to March and 1.8%

The Brazilian economy grew 0.3% in April compared to March, with increases of 1.8% in the quarter ending in April compared to the previous quarter, and of 2.8% compared to the same period in 2021, according to the GDP Monitor reading, announced on Monday by Fundação Getulio Vargas (FGV).

According to FGV economist Claudio Considera, in charge of the indicator, the good results were driven by strong increases in household consumption and demand for services. But, for him, the intense increases in these sectors are not very sustainable because they are influenced by effects that will not last over the long term, such as repressed demand for services, which was low during the two years of the pandemic; and by additional income, which is concentrated in the second quarter. So, for the specialist, the GDP growth in 2022 is heading for a rate of up to 2% in comparison to 2021. Last year, GDP was up 4.6% in relation to 2020.

When detailing the behavior of the economy outlined by the April GDP Monitor, Mr. Considera pondered that the numbers show a clear reaction, both in household consumption and in services, compared to the same month in 2021. In April this year, household consumption grew 7.6% compared to March, the best result since May 2021 (12%). In the same period, service activities advanced 4.1%. In the quarter ending in April, compared to the same period in 2021, the advances in these two topics in the indicator were 4.8% and 4.1%, respectively.

He recalled that in April people were more inclined to face-to-face activities as well as social circulation when compared to the same period last year. The progress of vaccination against Covid-19 since then has allowed the rate of deaths from the disease to decrease and, with it, people's fear of going back to the streets. This favors an increase in the consumption of services, such as bars and restaurants, which could not be accessed at a high rate last year, due to a worse scenario in the pandemic compared to the one observed today.

At the same time, April saw the beginning of the payment of the R\$1,000 withdrawal from the Workers' Severance Fund (FGTS) accounts, as well as the early payment of the 13th salary, a year-end bonus, for retired workers and pensioners, actions adopted by the government to boost the economy. This generated greater family consumption in the month, he noted.

However, when asked about the sustainability of the economy's high pace, Mr. Considera was cautious. He commented that both FGTS withdrawals and 13th salary early payments will not continue to happen throughout the year. At the same time, he does not see a continuation, in the same magnitude, of the demand for services until the end of 2022. There are limits to the impact of repressed demand for services, in consumer access to this activity, he noted.

"Those things run out, those extra sales. And we also have a reduction in the purchasing power of families with the rise of inflation," he recalled.

Another important aspect in the activity mentioned by him is the behavior of investments in the economy, still on a weak trajectory. Investments are a great inducer of jobs, as well as a sustainable pace in the GDP growth rhythm, he recalled. The indicator announced on Monday shows that the Gross Fixed Capital Formation (GFCF), which represents investments in the economy, fell 4.6% in April year-on-year, the fifth consecutive drop in that comparison. "The machinery and equipment industry is very bad," he said. In the FGV's GDP Monitor, the volume of machinery and equipment fell 10.7% in the quarter ending in April, compared to the same period in 2021.

Mr. Considera said that, in his analysis and with the information so far, the projections for GDP growth for 2022 would be more between 0.9%, 1%, possibly reaching 2% — but not exceeding 2%. "It should not go beyond that," he reiterated.

Source: Valor International
<https://valorinternational.globo.com/>

06/22/2022

ANALYSIS: CENTRAL BANK MULLS KEEPING HIGH INTEREST RATES FOR LONGER

Policymakers seem to hope that situation will improve to the point of making additional hike unnecessary

Central Bank's Monetary Policy Committee (Copom) is now considering the possibility of maintaining interest rates at a high level for longer to meet the inflation target. This would complement or replace the previous strategy of raising the Selic, Brazil's benchmark interest rate, to even higher levels in the final leg of the monetary tightening cycle.

In the minutes of last week's meeting unveiled Tuesday, the policymakers say they analyzed this possibility. They have also discussed which message to send about monetary policy for the next meeting, to be held in August.

As the inflation environment has deteriorated, the Copom decided that it was about time to raise the interest rate even more last week, to 13.25% a year from 12.75% a year. The policymakers have also signaled that they will keep interest rates at a high level for longer than the markets have been expecting in order to complement the necessary tightening dose. "The strategy of convergence around the target requires a more contractionary interest rate than that used in the reference scenario for the entire relevant horizon," the minutes say.

In last week's meeting, the reference scenario provided for an interest rate of 13.25% at the end of 2022, 10% at the end of 2023 and 8.5% at the end of 2024. This way, considering what the minutes say, the Copom seemingly believes that the interest rates must be above each of these percentages at the end of each year.

The minutes could not make it clear how a higher interest rate at the end of 2023 or 2024 will help to meet the inflation target on the relevant horizon, which is 18 months ahead. The interest rates in 2023 will impact inflation more in 2024 than in the current monetary policy horizon.

The alternatives between raising the interest rate to a higher level now or keeping the rate higher for longer were also analyzed when the Copom discussed future monetary policy signals for the next meeting, in August.

Here again, the Copom concluded that keeping interest rates high for longer will not be enough to meet the inflation target. As a result, the chosen strategy was to signal a 50-basis-points hike or a 25-basis-points hike, depending on the inflation rates until there.

In a very important point to consider regarding future signals of monetary policy, the Copom said the perspective of maintaining the Selic rate for a sufficiently long period would not assure, "at this moment," the convergence of inflation around the target in the relevant horizon.

It has been a while since the Copom used this phrase when talking about future steps – the intention, historically, has been to highlight that any signal is reliant on the evolution of the economic scenario. If the committee considered it better to include the expression "at this moment" now, it probably sees chances of positive evolution of this scenario by August, in a way that allows meeting the target by only keeping the interest rates at the current level, of 13.25% a year.

On the other hand, the Central Bank made a point of reinforcing, as it had already done in May, that the outlook is very uncertain, so it requires caution. When they presented their inflation projections, the policymakers said that uncertainty "has increased since the previous meeting." Caution, in this case, is related to the risk of setting a higher-than-necessary dose of interest rate.

The debate about the Copom's decision started with the directors saying they have already done a lot. "It was emphasized that the current monetary tightening cycle was quite intense and timely and that, due to monetary policy lags, much of the expected contractionary effect and its impact on current inflation are still to be seen."

All things considered, the Copom is moving to stop raising interest rates and to keep them high for a sufficiently long period. It signaled a new hike for August, but it seems to hope that the situation will improve to the point of making an additional hike unnecessary.

Will the Central Bank be able to stop raising the interest rates? The Copom has been signaling the end of the cycle since March, but it was not possible. This time, the policymakers decided to keep raising the rates because the "Copom observed deterioration in both the short-term inflationary dynamics and the longer-term projections."

The reaction function still seems to be in place: if more negative surprises come, the Central Bank will keep raising the interest rates.

Source: Valor International
<https://valorinternational.globo.com/>

06/22/2022

EMBRAER EXPANDS SERVICE CENTER IN SÃO PAULO DRIVEN BY BUSINESS JETS

Consistent delivery of business jets during Covid-19 pandemic, increasing use of fleet contributed to decision

Embraer, the world's third-largest commercial plane maker, doubled the useful floor area of its service center in Sorocaba, São Paulo, in order to follow the advance of business aviation in Brazil. The expansion required investments of R\$10 million.

"It is a natural growth, especially because of the business jet sales growth," said Johann Bordais, CEO of Embraer Serviços e Suporte. The consistent delivery of business jets during the Covid-19 pandemic and the increasing use of the fleet contributed to the decision of moving forward with the project, the executive said.

The center, which started operating eight years ago and is 100 kilometers far from São Paulo, now has 40,000 square meters of useful floor area and four hangars, three of which focused on maintenance, repair and overhaul of components for Embraer planes. The fourth hangar is focused on supporting fixed-base operation. Considering the services provided in Gavião Peixoto (São Paulo) as well, the company executes around 600 maintenance procedures a year. These procedures are expected to grow 5% to 10% a year. After the expansion, the service center in Sorocaba is now able to handle future demand and receive larger aircraft, including KC-390 Millennium.

Embraer's center in Sorocaba offers from maintenance and overhaul services to airport services through workshops authorized for different aircraft components. The facility is also able to modify jets, including the conversion of Legacy 450s into Praetor 500s.

In the next three years, 150 new workers are expected to join the center's current 150 employees.

In the three first months of the year, the segment of support and services contributed with revenues of R\$1.4 billion, almost 46% of Embraer's net revenues – the slice was so representative partly because commercial aviation has not resumed the pre-pandemic levels yet.

Still, this division, which currently accounts for 25% of revenues on average, is expected to gain more prominence, Mr. Bordais said. "This reflects our focus on supporting our clients." The company expects this business to grow 10% to 15% a year around the world.

Source: Valor International
<https://valorinternational.globo.com/>

06/23/2022

GOVERNMENT, CONGRESS MULL R\$600 AID FOR TRUCK DRIVERS

Talks have also begun to increase emergency aid, plans are underway to increase gas voucher

Pressured by the crisis of high fuel prices and the preventive detention, on Wednesday, of former Education Minister Milton Ribeiro on suspicion of corruption, the federal government and the governing coalition in Congress have accelerated the formulation of vote-getting measures. Behind the scenes, the trucker voucher had its value

raised to R\$600 from R\$400. Furthermore, talks have begun to increase the emergency aid and plans are also underway to increase the gas voucher.

The plan is to include all these measures in the constitutional amendment proposal (PEC) 16, which is being analyzed by the Senate. In its current version, the PEC authorizes the federal government to pay up to R\$29.6 billion to states that reduce to zero the sales tax ICMS rate on diesel and cooking gas and sets a 12% rate for ethanol.

These negotiations are seen with concern by the economic team, given their impact on public accounts. The R\$600 trucker voucher will cost R\$3 billion; doubling the value or range of the gas voucher would cost nearly R\$2 billion. The idea of raising the emergency aid surprised the government's technical staff, although the political team never gave up the plan of raising the value to R\$600.

All these additional expenses go in the opposite direction of the goal of closing the public sector accounts in the black and setting a downward trajectory for the public debt.

In relief to the economic team, Senate President Rodrigo Pacheco (Social Democratic Party, PSD, of Minas Gerais) said Wednesday that it is necessary to have responsibility with the spending cap. "Issues related to the fuel PEC must be preceded by impact studies and election-related barriers," he added.

Behind the scenes there is a discussion about the feasibility of launching these aid measures, because of the electoral legislation. One hypothesis raised would be the decree of a new state of calamity. There is, however, no consensus on this. Economy Minister Paulo Guedes has been fighting this idea in recent months.

Ítalo Franca, with Santander's team of economists, pointed out that "there is some doubt about the legal possibility" of implementing aid to truck drivers this year "even through a PEC, because electoral legislation restricts the creation of new benefits," he said.

Gabriel Leal de Barros, a partner and chief economist at Ryo Asset, has a similar view. The trucker voucher would cost R\$1.8 billion from July to December of this year if it were fixed at R\$400 and R\$2.7 billion if it were R\$600, according to his calculations.

Mr. Barros says he has "reservations" about the proposal. "It doesn't make economic sense to subsidize fossil fuel and still allocate taxpayer money that don't benefit the poorest," he said, also citing "the risk of loss of control" over spending during the analysis of the proposal, especially in an election year.

He also says that it is "very negative" the fact that "we are amending the Constitution every six months," since the aid would be implemented by means of a PEC. "This is not good for the fiscal framework and for the predictability needed by economic agents," he said.

The R\$400 voucher was called "alms" and a "joke" by truck drivers' leader Wallace "Chorão" Landim. The same comment had been made by him and other unionists last October, when the idea was unveiled by President Jair Bolsonaro.

Source: Valor International
<https://valorinternational.globo.com/>

06/23/2022

UN EXPERTS ASK BRAZILIAN SENATE TO REJECT BILL ON PESTICIDES

Group says adoption would be "monumental setback for human rights"

A group of independent experts from the United Nations released a statement in Geneva on Wednesday urging the Brazilian Senate to reject a bill on pesticides, warning that its adoption will mean a "monumental setback for human rights in the country."

The experts are Marcos A. Orellana, special rapporteur on the implications for human rights of the environmentally sound management and disposal of hazardous substances and wastes; Melissa Upreti (chair/rapporteur), Dorothy Estrada Tanck (vice-chair), Elizabeth Broderick, Ivana Radačić, and Meskerem Geset Techane, with the Working

Group on discrimination against women and girls; Michael Fakhri, special rapporteur on the right to food; Francisco Cali Tzay, special rapporteur on the rights of indigenous peoples; and Claudia Mahler, independent expert on the enjoyment of all human rights by older persons.

Ahead of the key Senate hearings on the bill PL 6,299/2002, which the report says is better known as the “poison package,” these experts warned that if the legislation is adopted, it will weaken regulations governing pesticide use in Brazil and expose people of all ages, including farmers, workers, indigenous peoples and peasant communities to hazardous substances with potentially devastating consequences for their health and well-being.

For them, it will mean a step backward in environmental regulations in the country. And they say they are alarmed by the bill’s provisions “that would allow the use of carcinogenic pesticides and those that carry a greater risk of reproductive and hormonal problems, and malformations in babies.”

In the statement, these experts call it a “myth” that pesticides are necessary to feed the world. “Pesticides present serious risks for human health and environment at a local and global scale,” they say.

The experts consider that the approval of the bill would aggravate the serious human rights issues in Brazil related to pesticides and call on the Brazilian government to approve and effectively enforce measures including a ban on aerial spraying and on the use of pesticides near housing, schools, water resources and other protected areas.

“Without further measures to ensure businesses respect human rights and the environment, abuses will continue to proliferate if this draft bill is adopted,” they said. The statement said these experts are in dialogue with the Bolsonaro administration on the issue.

The special rapporteurs, independent experts and working groups are part of what is known as the Special Procedures of the Human Rights Council. Special Procedures, the largest body of independent experts in the UN Human Rights system, is the general name of the independent fact-finding and monitoring mechanisms that address either specific country situations or thematic issues in all parts of the world.

The United Nations explains that the Special Procedures’ experts work on a voluntary basis; they are not UN staff and do not receive a salary for their work. They are independent of any government or organization and serve in their individual capacity.

Source: Valor International
<https://valorinternational.globo.com/>

06/23/2022

ARAUCO TO BUILD \$3BN PULP MILL IN MATO GROSSO DO SUL

Future mill will have a capacity of 2.5 million tonnes of eucalyptus pulp per year and is expected to start operating in 2028

Arauco signed an agreement with the government of Mato Grosso do Sul on Wednesday to build a mega pulp mill in the state. With investments of \$3 billion, the new unit will be located in Inocência, 337 kilometers far from Campo Grande.

The future mill, which still depends on certain conditions to get off the drawing board, will have a capacity of 2.5 million tonnes of eucalyptus pulp per year and is expected to start operating in the first quarter of 2028. A second phase of the project is planned for the future.

After the signing of the agreement, in a ceremony attended by Arauco CEO Matias Domeyko Cassel and Governor Reinaldo Azambuja Silva, the company will seek an environmental permit, which is a condition for the investment to be executed.

“There are legal proceedings to fulfill. This is the beginning of a journey,” said Carlos Altimiras, Arauco CEO in Brazil. The project is expected to be submitted for approval by the board of directors in the second half of 2024, with construction starting in January 2025.

In addition to environmental permits and confirmation of the investment by the board, the execution of the project relies on the availability of wood for pulp production.

According to Mr. Altimiras, the project requires nearly 380,000 hectares of gross area to be developed. Arauco already has 60,000 hectares, 40,000 of which are planted with eucalyptus, and has several negotiation fronts open to ensure enough wood to start operations in 2028. The company expects to reach 2024 with 70% to 80% of the total area needed.

With an average distance of 150 kilometers between the plant and the forests, the unit will be the most competitive of the Chilean group. Installed on the left bank of the Sucuriú River, it will have quick access to pulp distribution channels, including the MS 377 highway, the Paraná River (100 kilometers away) and the railroad network (47 kilometers away).

The logistical structure was key in choosing the location, said Mario José de Souza Neto, Arauco’s head of development and new business in Brazil. “We are evaluating the alternatives to see which are the most viable,” he said.

The future mill will be self-sufficient in energy, using a renewable source, with the capacity to generate 400 megawatts from the reuse of biomass. The surplus energy, or 200 MW, will be sold in the free market.

The implementation of the Sucuriú project will mark the arrival of the Chilean group to the pulp industry in Brazil – Arauco was already present in the country with forestry operations and four wood panel plants.

In addition, it will increase by about 50% its production capacity of the raw material, from 5.2 million tonnes per year, including the expansion underway in Chile, the Mapa project, to 7.7 million tonnes per year.

With Mapa, which is expected to go online in the second half of the year, Arauco will become the second-largest market pulp producer in the world, only behind Suzano. The group has fiber mills in Chile, Argentina and Uruguay, where it is a partner of Stora Enso in the Montes del Plata joint venture.

During construction, the Sucuriú project will employ more than 12,000 workers, benefiting around 20,000 families in the region, according to the Chilean group. In operation, the unit will employ 2,350 people, 550 of which in the plant, between direct and indirect jobs, and 1,800 in forestry.

The governor of Mato Grosso do Sul highlighted that the project will be located in a region that is part of the state’s Forest East Coast, but has not yet had a pulp mill.

“This plant shows the confidence of investors in Mato Grosso do Sul, in our tax incentive policy, in the legal security of those who invest, and in the logistical structure we are creating for those who need to distribute their output,” he said.

Source: Valor International
<https://valorinternational.globo.com/business>

06/24/2022

FEDERAL FUNDS FOR ENVIRONMENT PROTECTION AT LOWEST LEVEL IN 12 YEARS

In 2021, R\$3.8bn were spent in this field; in 2010, amount was R\$15.3bn, highest in the series

A central theme in the negotiations for Brazil’s admission to the Organization for Economic Cooperation and Development (OECD), environmental protection received last year, under President Jair Bolsonaro, the lowest

amount of funds in 12 years, according to data from the National Treasury Secretariat: R\$3.87 billion. In 2010, under Luiz Inácio Lula da Silva, the federal government disbursed R\$15.34 billion on this front, the highest in the series.

Spending on environmental protection in 2021 was equivalent to 0.04% of the GDP, while spending on military defense, for example, reached 0.56% of GDP. With civil defense, the expense was 0.01% of the GDP.

The data are in the Central Government Expenditure by Function (COFOG), which organizes federal government spending according to the methodology developed by the OECD with the United Nations. This data allows for comparisons with other countries.

According to COFOG's data, total central government expenses reached R\$2.7 trillion last year. It was down in comparison with the previous year, when the pandemic impacted public accounts. As a proportion of the GDP, total spending fell to 31.43% from 36.61%.

In the comparison between 2021 and 2020, the only government function that registered an increase was public services, which reached 12.03% of GDP, compared to 11.64% of GDP in the previous year. According to the National Treasury, the main reason is interest on public debt, which reached 6.93% of the GDP.

Another justification is transfers between different levels of government, which reached 4.18% of GDP. The figure reflects a larger volume of money distributed by the federal government to states and municipalities, according to the rules set out in the Constitution. Revenues from income tax and the Industrialized Products Tax (IPI) are shared.

Of the 10 functions that make up total spending, the largest is social protection, which consumed the equivalent of 39.9% of GDP last year, compared to 47.6% of GDP in 2020. The National Treasury reports that this is due to the maintenance of part of the measures to tackle the Covid-19 last year.

Health spending reached 2.43% of GDP last year, compared to 2.67% in the year before. In this group, the biggest item was hospital services, with 1.18% of GDP in 2021.

On the Education front, spending reached 2.15% of GDP in 2021, compared to 2.16% of GDP in 2020. The largest share, 0.81%, was spent on higher education, while education at the junior high school and high school levels received 0.35% of GDP. Spending on basic and elementary education was 0.75% of GDP.

The COFOG analysis combines the economic and functional classifications of expenditure, so that it is possible to evaluate which inputs were used to perform the functions. In this cut, the most relevant expense is employee payments, which accounted for 11.4% of total central government spending last year.

Source: Valor International
<https://valorinternational.globo.com/>

06/27/2022

SCENARIO FOR AGRICULTURE UNTIL 2031/32 IS PROMISING

This is what new projections from federal government indicate, despite global prospects

Although the long-term prospects for the Brazilian agribusiness continue to be the most promising, the current global economic situation, marked by interest rate increases and inflationary escalation in several countries — and amid the Russian invasion of Ukraine — tends to make the path for the growth of production and exports of agricultural products and animal proteins in the country a little more turbulent, at least for the next few years.

“In the second half of this year, we will still see commodity prices rise amid high costs. But we are slipping into an economic slowdown that could lead to a recession in the United States, Europe, and other countries. By 2023, I see destruction of demand and falling prices”, said economist José Roberto Mendonça de Barros, partner at MB Associados, in an event promoted by the Brazilian Center for International Relations (CEBRI) and by Inesper Agro Global.

Once this difficult period is over, the tendency for the Brazilian agribusiness is to resume a stronger and more stable pace of expansion, because many specialists, including foreigners, believe the country is the one that is most capable of expanding the offer of food in a scenario of global population growth and of the evolution of part of this population to a menu with products of higher added value.

The Ministry of Agriculture has reviewed its projections for the sector over the next decade, as it regularly does, and projected that Brazil’s grain harvest, for example, will increase 25.4% by the 2031/32 harvest, to 338.9 million tonnes — for this 2021/22 cycle, the figures indicate 270.2 million tonnes.

Obviously, forecasts of this type do not consider possible shortfalls caused by climatic problems, but contemplate prospects for planted area and productivity, calculated on the basis of recent history and ongoing investments and technological transformations. For the area planted with grains, the ministry projects an increase of 19.5% until 2031/32, to 87.7 million tonnes — thanks mainly to the conversion of degraded pastures into crops. The difference between the percentages of increase in volume and area is explained by productivity.

A growth of almost 70 million tonnes is expected in the country’s annual grain harvest in the next decade for meat production in general, and the ministry estimates an increase of 6.8 million tonnes. In the 2031/32 season, there will be 35.4 million tonnes, compared to the 28.6 million tonnes estimated for 2021/22. And if in grains the advance will be driven by cotton lint (36%) and soy (32.3%), in meat, the highlights may be chicken (27.8%) and pork (24.2%).

The scenario outlined also highlights that Brazil will maintain its domain in the production and export of products such as coffee, sugar and orange juice, and foresees a new production level for some of the fresh fruits it most exports. In the case of melons, for example, the expectation is for a 29.8% growth in production until 2031/32; in the case of grapes, 27.6%.

Source: Valor International
<https://valorinternational.globo.com/>

06/29/2022

TRANSMISSION LINES AUCTION EXPECTED TO DRAW R\$15.3BN

There will be 13 lots for construction, maintenance of 5,425 km

The most awaited auction of the Brazilian electricity sector held by the National Agency of Electrical Energy (Aneel) takes place Thursday, June 30, at the B3 headquarters in São Paulo, with the expectation of at least R\$15.3 billion in investments. There will be 13 lots for the construction and maintenance of 5,425 km of transmission lines and 6,180 megavolt-amps (MVA) in substation transformation capacity.

According to the calculations of the Ministry of Mines and Energy (MME), the contest is likely to draw the largest amount of investment in the segment since 2019. The transmission segment is the safest in the electric sector. It is fully regulated, and the winner gets a 30-year contract indexed to the IPCA (Brazil’s benchmark inflation index) with zero risk of default.

The projects, with a conclusion period of 42 to 60 months, will be implemented in the states of Acre, Amapá, Amazonas, Bahia, Espírito Santo, Mato Grosso, Mato Grosso do Sul, Minas Gerais, Pará, Rondônia, Santa Catarina, São Paulo and Sergipe. The government expects the creation of 31,600 jobs.

Lots 1, 2 and 3 are the ones that draw most attention for the robustness of the investments: almost R\$12.3 billion. The largest of these is number 2, which cuts through the states of Minas Gerais and São Paulo over a distance of 1,700 kilometers. The purpose of the lot is to expand the transmission capacity in the northern region of Minas Gerais and, if completed, will employ 9,800 people.

The total value of the reference allowed annual revenues (RAP) to be paid to the entrepreneurs is approximately R\$2.2 billion. The bidding will be based on the value of the RAP. The winner will be the bidder that presents the lowest value of RAP in reais per year.

André Fonseca, head of strategic financial services at Thymos Energia, believes that the auction will be of great competition with the presence of traditional companies in the sector, but the costs of the projects may be higher. “We have a scenario of higher capex and higher debt cost, which reflects in higher RAPs. Even so, the expectation is for high discounts,” he said.

Today Brazil has almost 170,000 kilometers of transmission lines, according to data from Brazil's national grid operator ONS. Despite that, the segment still suffers from bottlenecks to drain all the power production. The goal is that by 2026 Brazil will have almost 202,000 kilometers of lines.

“The expansion of the transmission grid allows for better management of power resources. In the Northeast region, it expands the possibility of outflow of new renewable generation – mainly wind. In addition, the auction brings other benefits to society, such as improved service conditions in the states of Acre and Amazonas, especially the integration of the Humaitá (Amazonas) region, which is currently isolated from the National Interconnected System (SIN), said ONS Director-General Luiz Carlos Ciochi.

For the professor at the Economics Institute of the Federal University of Rio de Janeiro (UFRJ) and coordinator of the Electric Sector Study Group (Gesel), Nivalde de Castro, the auction remains in line with the strategy that the formulators of the electric sector have adopted to meet the potential growth of renewable generation in Brazil.

“The auction is designed to meet expected demands, especially due to the growth of wind and solar sources, which require widespread number of lines. They serve 13 states, with investments of R\$15 billion with a maximum delivery term of five years in small, medium and large lots,” he said.

In the transmission sector, the expectation is good. The Brazilian Association of Electric Energy Transmission Companies (Abrate) believes that all the lots will be auctioned with strong discounts.

“The expectation is the same as the last auctions, occasions in which all the lots were bought. In the last auction [in 2021], the situation was identical to the current one and the discount was above 50%. Therefore, this trend of strong discounts may happen again,” says the technical head of Abrate, Geraldo Pontelo.

He says that the investment in each lot of venture to be fought over is calculated by Aneel's Reference Price Bank, whose nominal values remain the same compared to the last auction.

Mr. Castro, with the UFRJ, has a different view. The researcher evaluates that the macroeconomic conditions have changed. In his view, inflation is the main element that has increased costs, and this may not have been captured in the formulation of the costs of the projects, since the values were released well in advance.

“On the other hand, inflation ends up helping the business, because tariffs are adjusted by inflation. There must be a great demand, since it is the safest business in the electric sector, without regulatory risk and the Congress cannot interfere or give an opinion, as it has been doing in the generation and distribution segments,” he says.

Source: Valor International
<https://valorinternational.globo.com/>

06/29/2022

STARTUPS THRIVE IN BRAZIL BUT GOVERNANCE STILL TAKES BACK SEAT

Survey by Better Governance shows that only 17.6% of young companies are in most mature stages of governance

In the last decade, the Brazilian startup ecosystem has become the most solid in Latin America, with a growing number of companies, investors and success stories. But this expansion has not been accompanied by an item considered fundamental to the long-term success of the business: corporate governance.

A survey conducted by consultancy Better Governance shows that while 60.1% of startups declare to be in the most advanced stages of business development, only 17.6% are in the most mature stages of governance. The majority (82.4%) are still in the early stages.

“There is a mismatch. It’s like a teenager, with growth spurts but still stumbling,” said Sandra Guerra, the founding partner of Better Governance. “Lack of governance increases the risk of a startup entering the valley of death,” says the expert, who has served on boards of directors for more than 25 years. The mortality rate is high among startups. One in four startups die in the first year of life, and half don’t make it past the fourth year, according to a study by Fundação Dom Cabral.

Better Governance heard 146 startups from 20 states, most of them (74%) with up to five years of founding, annual turnover of up to R\$1 million (43.4%) and B2B model, with sales directed to other companies (45.2%). The results will be detailed this Wednesday in Miami, during an event of the Inter-American Development Bank (IDB). At the meeting, questionnaires in English and Spanish will also be launched, with the expansion of the survey to other Latin American countries.

The investments in startups in Brazil reached a record value of \$9.6 billion last year, with an increase of 165% compared to 2020. For 2022, the projection is for expansion of at least 20%, reaching something around \$11.6 billion to \$12.9 billion, said Nelson Azevedo, director of Better Governance, based on data from the Distrito platform.

“Funds are not going to decrease, but investors are pickier in the selection of startups,” the expert said. The so-called “spray and pray” era, in which venture capital funds sprayed funds and waited patiently for the results, “praying” for them to be positive, is over, Mr. Azevedo said.

With the crisis triggered by Covid-19 and the unfavorable economic scenario, marked by inflation and high interest rates, startups are having to show more solidity to attract the attention of investors, whose evaluation criteria have also become more sophisticated as the checks get fatter. In this scenario, Mr. Azevedo points out, a well-structured governance system can make a lot of difference for startups.

Instead of rarities such as “unicorns” and “decacorns” – startups whose market capitalizations exceed \$1 billion and \$10 billion before they even hit the stock market, respectively – the funds are now interested in identifying “camels,” Mr. Azevedo said. These are companies that do not grow so fast, but show constant evolution and are resistant to bad weather.

The governance maturity model proposed by Better Governance takes into account the criteria for small and medium-sized companies of the International Finance Corporation (IFC), which is linked to the World Bank. There are six governance levels, classified by four stages of maturity. The results are then compared to the four stages of development of startups established by the Brazilian Institute of Corporate Governance (IBCG).

The biggest mismatch is in the control environment – which evaluates the financial, accounting, and strategic control structure – and in the field of financial information disclosure and transparency. In the first case, 66.4% of the companies are still in the initial stage of maturity. This reflects the fragility of startups in practices such as auditing (with 80.5% of the companies in the basic stage) and risk management (47.7%). In relation to transparency, the share of companies in the developed or advanced stage does not reach 14%. When it exists, the work of auditing the rendering of accounts is restricted to the founders, without greater visibility to the other stakeholders.

The concern with ESG occupies an intermediate level of attention. About 71% of the companies say they are advanced in issues related to the formalization of the business, such as articles of association and bylaws. But

items such as sustainability and implementation of governance bodies (such as boards) only occupy a similar status in 20% and 15% of startups, respectively.

The same occurs with decision-making and strategic monitoring. Almost 46% of the companies are in the most mature phases of the remuneration policies, for example, but very few are prepared for the succession of their executives: 86.5% are still in their infancy in this aspect.

“Succession is not a taboo only in startups; it is a problem in any company,” Mr. Guerra said. In the case of new companies, this is aggravated because, in recent businesses, the entrepreneur or CEO hired has more difficulty in considering his own obsolescence and recognizing when the business requires another manager profile. The recommendation, however, is to consider a succession plan even if it is not to be effective in the short term, says the partner at Better Company. Unlike what the saying goes, never change a winning team, in a startup, it is necessary to be prepared to change at any time.

Source: Valor International
<https://valorinternational.globo.com/>

06/30/2022

E-COMMERCE DRIVES NUMBER OF REGULAR EXPORTERS

Online platforms create opportunities for new companies abroad, experts say

The growth of internet sales — and a favorable exchange rate — drove commerce into a boom of new exporting companies with continuous sales to other countries. The number of those companies increased to 15,770 last year from 14,490 in 2019 — up 8.9%.

Commerce expanded nearly two times faster (16.5%) than the average and accounted for nearly one-third of the total number of regular exporters in 2021. The manufacturing sector remains the leader, with 9,400 companies last year, but its growth from 2019 to 2021 was smaller, at 2.8%. The data are from the Center for Foreign Trade Studies Foundation (Funcex).

For specialists, the expansion of e-commerce has created opportunities for new companies to venture into exporting. According to a survey by economist Daiane Santos and statistician Henry Pourchet, with Funcex, companies debuting in shipments overseas totaled 5,270 in 2021, 26% more than in 2019, before the pandemic hit Brazil. Again, commerce, with 2,500 companies, led the pack, with an increase of 45.8%. Industries added 1,960 companies, with an advance of 17.2%.

The devalued exchange rate, although not considered as a guarantee or as the only condition for the increase in shipments, also served as a stimulus, at the same time that the health crisis forced companies to improve their logistics structure, making the transportation and delivery of products more efficient and faster, said Ms. Santos.

The survey shows that in 2021 exporters totaled 30,960 companies, but only about half are regular exporters — those that made shipments every year during the period studied since they started selling overseas.

According to the survey, commerce was already gradually gaining more space among continuing exporters as the number of exporters grew. In 2000, the manufacturing segment accounted for 65.8% of regular exporters while commerce represented 24.5%. Ten years later, those shares were 64.8% and 27.9%. Last year they closed at 59.7% and 32%, respectively.

The data show the great interest that the foreign market arouses, especially from smaller companies that can serve certain niches in which small importing companies seek small suppliers, said José Augusto de Castro, head of the Foreign Trade Association of Brazil (AEB). The growth of trade over time among regular exporters, however, shows that the industry has more difficulty in sustaining its shipments, often taking advantage of favorable cycles or more irregular export opportunities.

Mr. Castro also considers that although the devaluation of the real may have created a temporary advantage for the surge in the number of companies, the exported values are concentrated by relatively few companies. The number of exporting companies in the agribusiness sector, he points out, exemplifies this well. In a sector in which newcomers are less common, regular exporters historically stand at around 300 companies. In 2021 there were 302, which represented about 2% of all regular exporters. In terms of value, the shipment of agricultural products last year accounted for 20% of the \$280.8 billion exported by Brazil.

Ms. Santos and Mr. Pourchet say in the survey that the most recent export momentum was influenced by government stimulus policies and also by the economic situation. Between 2009, the first year after the international financial crisis, and 2014, the number of exporters stabilized at around 21,000 companies.

With the contraction of the domestic economy between 2015 and 2018, there is an increase in the number of companies entering the export base, with a new level of about 25,000 companies at the end of this period. In the last four years, there was a more vigorous year-over-year growth, maintained during the pandemic period.

Ms. Santos foresees that the number of regular exporters and opportunities will increase further amid the reorganization of the international trade in search of resilience and supplier diversification. “But it is not possible to rely solely on exchange rate devaluation to encourage new companies to export or help sustain shipments by newcomers,” she said. To do so, she stresses, it is necessary to have support from programs that encourage exports, including guidance and qualification for companies.

Source: Valor International
<https://valorinternational.globo.com/>
