
NEWSLETTER

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BP BUNGE GIVES UP ON SELLING ASSETS AFTER FAILING TO FIND A BUYER

Controlling shareholders concluded that bids “were not satisfactory”

The sale of the sugar-and-ethanol joint venture formed by U.S. company Bunge and British oil company BP will be formally called off due to the lack of firm offers, sources say. BP Bunge Bioenergia’s assets attracted interest from Abu Dhabi’s Mubadala fund and Raízen, but the controlling shareholders concluded that the bids were “not satisfactory,” sources close to the talks say.

People familiar with the matter also said that BP intends to hold private talks with its partner Bunge, which owns 50% of the company, to take 100% control of the company. The British oil company also intends to integrate the joint venture into the group’s biofuels division.

BP Bunge Bioenergia, valued by the market at around R\$9 billion, can process 33 million tonnes of sugarcane per harvest. Last year, Bunge hired J.P. Morgan to sell its 50% stake in the company. At that time, BP concluded that it could also sell its stake, and the two jointly announced the sale of the entire business.

Mubadala made the best financial offer — but it was still far below what the controlling shareholders wanted. Late last year, the Abu Dhabi fund made progress in negotiations to acquire Atvos, and the deal with Bunge BP cooled, according to sources.

Raízen, a joint venture between Cosan and Shell, was looking at Bunge BP’s mills, but the controlling shareholders wanted cash. Sources familiar with the matter said Raízen preferred to swap shares and give only a portion in cash. Not all of Bunge BP’s mills were of interest to Raízen, according to people familiar with the matter. However, the controlling shareholders did not want to sell the business piecemeal.

The joint venture, which was formed in 2019, has 11 sugar-and-ethanol plants. In the cycle ending in March 2022, the company’s net operating income totaled R\$7.2 billion, with a net profit of about R\$1.7 billion. The production units are located in Goiás, Mato Grosso do Sul, Minas Gerais, São Paulo, and Tocantins.

This is not the first time Bunge has tried to exit the sugar-and-ethanol business. Before forming the joint venture with BP, the U.S. company, one of the world’s largest in the agribusiness sector, had already hired banks to get rid of its assets in the segment.

Bunge and the France’s Louis Dreyfus, another global agribusiness group, have invested heavily in sugar and ethanol in Brazil in the past, but have not seen the returns they expected.

In early 2021, Raízen closed a deal to buy Biosev, in a negotiation that included an exchange of shares and the payment of R\$3.6 billion to refinance the debt of the company, a subsidiary of the giant Louis Dreyfus.

In a block trade, Hédera, a vehicle of Dreyfus, intends to raise R\$1.1 billion with the sale of 330 million shares. The funds will be used by LDC to pay off debts to banks. The French have been shareholders in Raízen since the sale of Biosev. The transaction marks LDC’s exit from the business.

The sale of the stake in Raízen reflects LDC's need to settle payments with banks for past unsuccessful investments. A source recalls that the company has lost a lot of money on ethanol in Brazil since it entered the sector in 2009 with the purchase of the Santaelisa mill.

BP Bunge Bionergia, Bunge, and BP declined to comment.

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

02/01/2023

LOCAL ASSETS OFF TO STRONG START OF YEAR DRIVEN BY FOREIGN INVESTORS ***Yet Brazil's advance looks tepid amid global rally***

Given the turmoil investors faced at the beginning of 2023, January was a good month for risk assets. Driven by foreign capital, the stock market rose, and the dollar fell against the real. In fixed income, with signs of inflation under relative control, intermediate interest rates gave way, with capital gains for investors holding federal government bonds maturing in up to five years. More than that, it had an impact.

Brazil, under the new leadership of President Luiz Inácio Lula da Silva, saw its democratic institutions attacked by the invasion of the halls of power by extremist supporters of former President Jair Bolsonaro on January 8. A few days later, accounting inconsistencies revealed by Americanas and the retail giant's request for court-supervised reorganization sent the debt and equity markets into a tailspin.

Despite all this, Brazil's benchmark stock index Ibovespa gained 3.4% over the month influenced by the upward movement of international stock markets. The real estate stock index gained 7.1% and the dividend index gained 5.9%. The exchange rate fell by 3.9%. These movements are related to the arrival of foreign investors in Brazil, which has a premium over developed and other emerging countries.

The IMA-B 5, which represents a basket of National Treasury Notes Series B (NTN-B or Tesouro IPCA+), rose 1.4%. With yields above 6% per year and adjusted for Brazil's official inflation index IPCA, the perception is that they have a good yield if the Brazilian economy does not collapse.

January was marked by a return to risk in global markets on news that the United States Federal Reserve (Fed) was close to ending the process of raising interest rates. But Brazil was a lukewarm participant in that move, said Luciano Telo, Credit Suisse's chief investment officer for Latin America.

"The [U.S.] Federal Reserve, in a softer way, implemented what the markets were imagining: two more rate hikes and the cycle is over. That was the cue to reduce uncertainty and bring liquidity to risk assets," he said. "Brazil caught the tailwind through the exchange rate, with the appreciation of the real, but what could have been a bigger rally in the equity market and fixed income was less so compared to some emerging market peers."

In the executive's view, the Fed meeting this Wednesday will be important to signal the end of interest rate hikes, but he thinks that by March the U.S. central bank is likely to send a message to correct the excessive optimism of financial agents. This has been reflected in interest rates which are already pointing to a possible cut at the end of the year.

Credit Suisse expects the hikes to be completed with benchmark rates at 5% per year. "We have not added risk in a relevant way, we will assess the reaction outside. But the good news is that 2023 will be the first year in three that the Fed will not have another interest rate hike to get in the way."

Mr. Telo believes that the Brazilian market has not taken full advantage of the tailwinds because, at the beginning of this administration, it is still not possible to know what the long-term fiscal project will be. The election of congressional leaders are still pending. The plan to balance the public debt will not be presented until April.

He mentions that long inflation-linked bonds have even seen their premiums rise. "The market doesn't like uncertainty and discounts it in the price. We stayed more in the shorter [maturities] because we were anticipating this lack of fiscal definition. It is normal for the government not to give a signal before Congress is in place." He

said that's why the shorter NTN-Bs have performed relatively well, but the longer ones are now trading at higher rates.

The executive says that in Brazil it has become more difficult to forecast Selic cuts and while this is not possible, the options for the first half of 2023 are to have fewer positions in the equity market and a little more in fixed income, in addition to increasing the share in hedge funds. "The premiums in fixed income are relatively high, and to have an advantage in the equity market, you need to have some resolution on interest rates, a little more tangible horizon with a fiscal framework, and inflation meeting [the targets]."

Credit Suisse, in its strategies designed for Brazilian investors, typically holds global equity markets including in the real-denominated portfolios, but Mr. Telo says that last year this position was reduced to virtually zero and that he believes it early to include this class. "You have to get closer to a recession, with the revision of corporate earnings growth abroad, to have a more assertive allocation," he said.

For now, his team is working on the assumption of a slight slowdown in the U.S. economy. "We have been waiting, diluting the risk a little and taking advantage of the higher interest rates in Brazil to stay in the CDI," he said, using the acronym for the interbank deposit rate, a benchmark for the profitability of investments in the country. "Although it is an excellent long-term option, we are in an unusually low position. It is a period of a little more patience for the trajectory of interest rates [in the United States] to get more into the share price."

As much as 2023 is under the threat of a global recession, assets will not necessarily correlate with the pace of GDP, said Eduardo Ventura, head of Citi's private banking in Brazil. He points out that there are high-quality bonds paying good rates, far from the zero real interest seen before the pandemic, and that in the equity market there are several poorly valued stocks. "In terms of allocation, it looks very favorable for the saver to get returns without taking so much risk."

In Brazil, although local financial players are cautious because of the indefinite nature of the public debt, high interest rates have balanced the game and ensured the presence of foreign capital. This has affected the exchange rate and equities, said Rafael Bisinha, Citi's local markets specialist. "If there is not a complete collapse, the high rates compensate for the risk," he said. "Foreigners look at this and see that the current account data is good and the debt, while not good, has been stable compared to other emerging markets. It even has relatively good growth in 2022 and the unemployment rate is low."

While other markets such as Turkey, China, and Russia have fallen off the radar, Brazil is emerging with relative prominence and there is goodwill towards local assets, Mr. Bisinha continues. But that could change if the government fails to do its homework. "The feeling is that if it is an economic policy with a more massive presence of the state, and if the capital allocation of the past is any guide, the prognosis is not good," he said.

If the choice is a higher level of debt, so that the debt does not explode, in Mr. Bisinha's view, the way out may be a greater tolerance of inflation, closing the gap with tax increases. "If this is the possible balance, you have to prioritize domestic inflation-indexed investments in the medium and long term."

For the Citi executive, investors should not be completely out of the equity market in this scenario. He mentions that companies focused on the foreign sector tend to outperform. Hedge funds, which have the agility to turn the risk key, are another class to bet on. "The investor can take advantage of the high level of the real interest rates to preserve his assets and delegate the active management to the funds, the professional will be able to change the call quickly," says Mr. Ventura.

Investing part of the funds in other locations is still on the risk distribution map, and even families with a more conservative profile have paid attention to international diversification. "Nobody is complaining about a return in dollars plus 7% to 8%," says Mr. Ventura.

At the prices stocks are trading today, you have to be invested in a stock exchange in Brazil, says Rodrigo Éboli, a portfolio manager at Brainvest. "You have to calibrate the size, but with the higher opportunity cost you have to have more fixed income anyway."

He says the firm has been reducing the risk of its clients' portfolios since October, but with a slightly larger allocation in hedge funds so as not to be completely left out of the party. In fixed income, it has already reduced what it had in the longer term, preferring, for example, the NTN-B maturing in 2024.

Brazil is an integral part of the main mandates of international investors, said Fernando Cortez, head of distribution at the asset manager Schroders in Brazil. “Without a doubt, if there is a movement of diversification to emerging markets, whether in debt or equity, Brazil will attract funds,” he says, adding that although it is a moment of uncertainty and volatility that will continue in the coming months, from a valuation point of view, the market is attractive.

He cites that, in terms of variable income, the stocks that make up the Ibovespa are trading with a price/earnings ratio of six to seven times, one of the lowest in the historical series, with a return in dividends of around 12%. “When you put that into the quantitative allocation models versus other emerging markets, Brazil is in a good position.”

Through January 26, foreigners had injected a net R\$9.92 billion into the B3’s secondary market. By 2022, foreign capital had injected nearly R\$100 billion, while other local investors were withdrawing their funds.

In a report, the equity team at Guide Investimentos wrote that the inflows that have flooded the Brazilian stock market are surprising and that the movement could be linked to the attractive valuation, two deviations below the historical average, as well as the prospects of higher growth in Brazil and the chances of an interest rate cut. Developed economies, on the other hand, are surrounded by monetary tightening policies and the specter of a recession. “Another point that stands out in Brazil is that corporate profits have been growing, helped by the rise in commodity prices.” And it is not a valuation trap, where the company looks cheap but the expectation is for lower results, the analysts note. They believe that the companies have weathered the economic slowdown well.

In the local stock market, Mr. Cortez says the main opportunities are in the “value” sectors, which include banks, utilities, and stocks linked to the commodity chain.

With the reopening of the Chinese economy after the restrictions imposed by the zero-Covid policy, Mr. Cortez says the firm has been mapping, since the end of last year, the assets that can benefit from this. Ore and oil are the preferred ones.

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

02/07/2023

ANALYSIS: CENTRAL BANK HAS TO SEE HADDAD’S TAX PACKAGE TO BELIEVE

There are signs that policymakers are divided, with one side more willing to give the new administration the benefit of the doubt, while the other seems to have a more skeptical view

The Central Bank’s Monetary Policy Committee (Copom) has to see the implementation of the fiscal package unveiled by Finance Minister Fernando Haddad to believe that it will reduce the primary deficit and ease inflation control.

There are signs that the policymakers are divided, with one side more willing to give the new administration the benefit of the doubt, while a more fiscally conservative side seems to have a more skeptical view.

In the minutes released Tuesday, some Copom members say the financial market is projecting a lower primary deficit than the one foreseen in the 2023 budget. But the document says that when it comes to calculating the impact of fiscal policy on inflation, the committee as a whole worked with the official figures approved by law, maintaining its standard methodology of analysis.

This makes a difference in the central bank’s projections. Presumably, if the Copom gave the same vote of confidence as the financial market, forecasting a smaller primary deficit in 2023, inflation could be lower and the room for an earlier interest rate cut would be greater.

According to the Focus bulletin, the financial market is forecasting a primary deficit of 1.11% of GDP in 2023, while the negative result forecast in the budget would be equivalent to 2.2% of GDP.

For now, the Copom as a whole maintains the larger deficit in its accounts, acknowledging only that the implementation of Mr. Haddad's fiscal package would weaken the fiscal stimulus to demand and "could reduce the upside inflation risk."

At its meeting last week, the Copom revised its inflation figures, taking into account two things. On the one hand, the sharp rise in future interest rates, which occurred precisely because of the worsening fiscal risk, should theoretically contribute to reducing activity and, consequently, inflation. On the other hand, it was considered a permission to spend about R\$200 billion in the budget, which increases aggregate demand.

According to the Central Bank's calculations, one factor ends up canceling out the other when evaluating the inflationary effects transmitted through aggregate demand. These calculations, it should be noted, do not take into account Mr. Haddad's package, which relies mainly on increased tax collection.

Aggregate demand is, of course, only one of the channels through which fiscal policy affects inflation and, consequently, the conduct of fiscal policy. It can also affect inflation expectations, asset prices such as the foreign exchange rate, and the neutral rate of interest.

But it is an important barometer of the debate within the committee on how fiscal policy affects inflation. It is worth noting that there is a wing within the Copom that has tried to see the fiscal policy glass half full rather than half empty in the debates.

According to the Copom minutes, "some members" noted that the market was expecting a lower primary deficit than included in the budget. "Some members noted that the implementation of the Ministry of Finance fiscal package should mitigate the fiscal risk and consider that it will be important to monitor the challenges for its implementation," the minutes say.

The Copom talks about "some members" when at least three policymakers have a different view from the majority. In theory, this could be three or four members of the nine-member committee.

But there is a more fiscalist wing that is worried about the inflationary impact of Mr. Haddad's fiscal policy. It is also more evident in the discussions about the neutral rate of interest. Today, the Central Bank uses a neutral rate of 4% in its models, but some members have said it could be higher.

"Some members evaluated the possibility of incorporating some increase in the neutral interest rate, towards the movement observed in longer-term inflation expectations extracted from the Focus survey," the Copom minutes said. This would result in a neutral rate of around 5% per year in real terms, given the expectation of an interest rate of 8.5% in 2026 and an inflation rate of 3.5%.

"The Committee chose, at this point, to maintain the neutral interest rate at 4%, but evaluated alternative scenarios and identified that the impacts on its projections of an increase in the neutral rate grow over time and become more relevant as of the second half of 2024," the minutes said.

Again, the thesis of a more conservative neutral rate came from a minority of three or four Copom members. This is the fiscalist and more conservative wing.

Thus, to know the chances of an earlier interest rate cut or a tighter monetary policy, it will be necessary to follow the data on the implementation of Mr. Haddad's fiscal policy and the officialization of a lower primary result target in the law, probably the new fiscal rule that is being designed.

It will also be necessary to follow the evolution of the two wings of Copom, composed of a more moderate and a more conservative one. Not only the current members, but also the new ones that will be chosen this year for the Central Bank's board, two of them in February.

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

02/07/2023

IRRIGATION STARTUPS GROW AMID DEMAND FOR EFFICIENT WATER USE

Asset-management firm launches \$50m fund and bets on early-stage agtech companies in Latin America

Irrigated crops account for 20% of the world's crops, but 40% of agricultural production. This figure confirms that technology is a way to reconcile society's demands for more food with the rational use of water resources. In this scenario, irrigation startups in Brazil and Latin America are attracting global attention.

Irricontrol, from Minas Gerais, which belongs to the Austrian group Bauer, doubled its revenue in 2022 to R\$20 million. To double the result again this year, the company will open a second plant in São José da Boa Vista, in the countryside of São Paulo state.

"Irrigation is now going through the revolution that the agricultural machinery sector experienced years ago, with producers choosing equipment based on efficiency and no longer on size or robustness," says the startup's CEO, Luiz Alberto Roque, who is also co-CEO of Bauer in Brazil.

Bauer's platform allows growers to remotely control pivots and other irrigation equipment, as well as monitor machine performance metrics. To get around the lack of connectivity, the technology installed in pivots communicates via radio with a central office at the farmhouse, which sends the information to the cloud.

The startup's marketing director, Helton Franco, explains that problems with the equipment during nighttime operations drive up costs. "The producer turns the machine on at night because evaporation and energy rates are lower, but he goes back to farmhouse and doesn't know how things are going," he says.

Using the technology, the company's customers have reduced water and energy use by as much as 30%, while maintaining crop productivity. Mr. Roque also cites the solution as a form of transparency in agribusiness resource use.

"Regulatory agencies in Bahia and Minas Gerais already require that equipment be equipped with a flow meter and send data to prove that it is being used under the grant, especially in regions where there are conflicts over water," said the CEO.

Taking advantage of Bauer's commercial structure, Irricontrol has customers in the main irrigation centers of the country, especially Bahia, Goiás, Mato Grosso, Mato Grosso do Sul, Minas Gerais, Rio Grande do Sul, and São Paulo. The company also exports to 16 countries — about 30% of the startup's sales are made abroad.

As for the future, Mr. Roque says the idea is to make domestic the intelligent management services offered today by partner technologies. "It is the natural evolution of the platform, to integrate data and allow much more assertive decision-making," he points out.

The World Economic Forum classified the Argentinean irrigation startup Kilimo one of the 10 most innovative companies in the world. The company also offers a technology that saves up to 40% of resources. The recognition reinforces global concerns about the supply and rational use of resources.

"We believe strongly in the growth of high-impact technologies that help improve sustainability and the rational use of chemicals and inputs," says Kieran Gartlan, partner for Latin America at the asset-management firm The Yield Lab, which has Kilimo among its portfolio companies.

The manager is launching a third fund dedicated to early-stage agtech companies in Latin America. The goal is to raise \$50 million with producer groups and traditional agribusiness families. In addition to making investments, the company will have strategic partners to validate the startups' projects.

"Silicon Valley investors don't understand the seasonal factors and the difficulty of getting technology to the countryside, and they don't have the patience to nurture these agtechs," says Mr. Gartlan. "So, we help agribusiness startups in that early stage until they get to the point in which there will be generalist investors."

Source: Valor International

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

02/08/2023

ANALYSIS: LULA WORSENS PERCEPTION ON FISCAL SITUATION

In Central Bank's survey, most analysts said country's fiscal situation has deteriorated between the last two meetings of the Monetary Policy Committee

Financial market analysts have slightly improved their fiscal projections for this year, predicting a slightly lower primary deficit and public debt.

Nevertheless, most believe that the country's fiscal situation has deteriorated between the last two meetings of the Central Bank's Monetary Policy Committee (Copom).

This is the general picture painted by the pre-Copom questionnaire, which is conducted with almost 100 economic analysts on the eve of the Copom's meetings. The conclusion is that the short-term fiscal situation has improved, partly because the data for the end of 2022 were better than expected and partly as a result of the fiscal package launched by Finance Minister Fernando Haddad.

But amid dubious statements by members of the federal administration, including President Luiz Inácio Lula da Silva, this improvement in the data is not translating into a better perception about the fiscal situation. Another negative factor is the lack of concrete signs about the country's new fiscal rule.

In early December, just days before the Copom's meeting, economic analysts predicted a primary deficit of R\$116 billion in 2023. In the following meeting, which took place last week, the figure was R\$113 billion.

The drop in the projection is small, but should not be ignored, considering that along the way a budget was approved that goes over the spending cap by more than R\$200 billion. Mr. Haddad's fiscal package has probably managed to maintain market expectations for this year's public deficit.

The forecast for public debt is also slightly better. In February, the median forecast indicated a gross debt of 81.2% of GDP, and now the forecast is 79% of GDP.

The situation is not good: if the market is right, there will be an increase of 5.5 percentage points in the gross debt throughout 2023. However, it is still positive that the debt will be below 80% of GDP at the end of this year, a level that many consider excessive for an emerging economy.

This improvement in the debt forecast is mainly due to the fact that debt in 2022 was lower than expected. In the December pre-Copom questionnaire, experts expected it to be 76.7% of GDP. The re-estimation of nominal GDP, among other factors, contributed to the decline of the indicator.

The Lula administration has nothing to do with this improvement in the debt forecast, but it could benefit from a lower starting point than initially expected.

But in the question that the Central Bank asks for a qualitative assessment, 66% of the economic analysts say that the country's fiscal situation has worsened. Only 6% think it has improved. For the remaining 28%, the situation has remained the same.

The deterioration in the perception of fiscal risk came amid dubious comments by President Lula about his commitment to control public accounts, such as those made in his inauguration speech.

Attacks on the monetary policy and the independence of the Central Bank have also weighed heavily. Some analysts fear that the Lula administration will respond to the economic slowdown caused by monetary tightening with more fiscal and parafiscal expansion.

Mr. Lula's remarks also put pressure on the future interest rate curve – many fear that in an environment of greater lack of inflationary control, the key interest rate should be higher, which would increase the government's financial expenses.

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

02/08/2023

Brazil's antitrust watchdog rejects Catena-X operation in Brazil
CADE identified competition problems; platform considers demands impossible to adopt

The antitrust regulator CADE on Wednesday disapproved the creation of the Catena-X platform, the result of a global joint venture between Volkswagen, BMW, Mercedes-Benz, Basf, Henkel, SAP, Schaeffler, Siemens, T-Systems and ZF, which would create an organization for technological cooperation and innovation. CADE also decided that its General Superintendence (SG) will evaluate the possible violation of the economic order in this case. The decision disapproves the operation in Brazil.

The group of German automakers and parts and services suppliers had pointed out in the case that CADE had made the operation unfeasible by applying “unfeasible, unconstitutional, and illegal” conditions to the deal that would have made the project impossible. CADE had identified competition problems in its initial analysis of the platform and had imposed conditions to approve the operation.

In a petition addressed to CADE, the automakers and suppliers informed that they were abandoning the operation, pointing out that from all the countries that had analyzed it, Brazil was the only one that demanded “unilateral remedies” that they considered impossible to adopt.

The case had already been approved in Chile, South Korea, Poland, Ukraine, Germany, and the European Commission, so only the Brazilian OK of approval remained. The companies defended that the project would serve to make the customer experience safer, in addition to supporting the decarbonization process by enabling the exchange of information.

The rapporteur of the case, counselor Gustavo Augusto, said that the negotiation of the remedies applicable to the process was “ample, transparent, and open.” According to him, the companies presented an agreement that, although it included the main agreed remedies, they excluded from the final draft, “without prior negotiation or communication” with the Council, several ancillary obligations that would be essential to the approval, and which are commonly included in similar operations. These include the need for the independent auditor (monitoring trustee) to have no conflict of interest with the companies.

CADE has also required the companies to provide it with the messages exchanged on IT systems, in the event of a formal opening of an investigation procedure and if requested by the Council. To do so, they would have to keep these messages on their servers for five years.

“The removal of this obligation would make it impossible for CADE to monitor compliance and verify that the applicants are not exchanging competitively sensitive information,” he said.

“The claim, irresponsibly made by the applicants, that the remedies included in the vote were not discussed with the parties, or even that they would make the operation unfeasible, is far from the truth,” said the counselor. “The claim that the final wording of the remedies was conceived unilaterally, without any prior discussion with the parties, is false, fanciful, and irresponsible, and it is perplexing that companies of the size and seriousness of the applicants would put themselves in this unworthy role.”

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

02/09/2023

BRAZIL'S ANTITRUST WATCHDOG REJECTS CATENA-X OPERATION IN BRAZIL

CADE identified competition problems; platform considers demands impossible to adopt

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

02/10/2023

STATE-OWNED, SEMI-PUBLIC COMPANIES DISPUTE R\$37BN IN TAXES
Federal government wages battles involving substantial amount

While it seeks to increase tax collection through the Administrative Council of Tax Appeals (Carf), the federal government, on the other hand, faces a considerable liability in tax disputes. State-owned companies and semi-public companies such as Petrobras, Banco do Brasil, Brazilian Development Bank (BNDES), Infraero, and Banco do Nordeste, are discussing at least R\$37 billion in tax-deficiency notes.

Most of this amount – R\$35 billion – involves Petrobras. The company currently has 10 cases in progress with Carf, according to the Securities and Exchange Commission of Brazil (CVM). In two of them, totaling R\$5.7 billion, it was defeated last week. The company intends to appeal to the courts.

The cases, analyzed by the Superior Chamber – Carf’s highest instance – deal with the taxation of profits abroad. In the judgment, the casting vote was used – it returned to the scene through the tax package implemented by Finance Minister Fernando Haddad. The casting vote is given by the head of the judging panel, who is also the federal government’s representative.

The return of this measure generated protests from taxpayers – who, until then, had the advantage in case of a tie. The government then decided to negotiate with the private sector, which led Carf to suspend this week’s trials while awaiting a negotiated solution. On the agenda were five other Petrobras cases.

Besides the oil company, two large state-run companies, Banco do Brasil and BNDES, are also discussing tax-deficiency notes in Carf. Last week, a BB case, estimated at R\$2.2 billion, was judged.

Carf’s first decision was partially against the request of the lender, which can still appeal. Banco do Brasil indicates, in a document sent to the CVM, that the tax-deficiency note deals with alleged differences in employer’s social security contribution and other social contributions on food voucher and profit-sharing program granted to employees in 2015.

In a note, Banco do Brasil said it has “several” administrative appeals submitted to Carf pending trial. There were, even before the suspension of trials by Carf, other cases on the agenda, but the amounts are not known.

The bank said, in the note, that it has typically uses the administrative way to discuss tax issues and that, after this phase, “in case of an unfavorable decision, when the bank understands that some right was violated, it takes the issue to the courts.”

The case of BNDES deals with the possibility of incurring social contributions for the payment of food vouchers to employees in 2015. In the R\$12 million case, the bank claims that the food voucher is not part of the tax base for calculating social security contributions. The lender expects the issue to be resolved within the Carf, considering an opinion by the Federal Attorney General’s Office (AGU), which supports its thesis.

The BNDES also said in a note that disputes with the federal government regarding tax controversies follow the treatment of other legal controversies discussed administratively. That is, in case of disagreement with a collection made by the Secretariat of Federal Revenue, the bank’s financial department asks the legal team to present an objection to the so-called judgment office and, if necessary, an appeal to the Carf.

“After the administrative path, the tax controversies involving the BNDES and the federal government may be taken to the courts if there is a possibility of winning, either due to the existence of favorable precedents or the reasonableness of the argument,” the BNDES said.

There are still a number of cases involving state-owned airport operator Infraero in Carf. The main subject is the operations in the cargo terminals of some airports. There are 177 active cases with the tax agency, totaling R\$52.4 million in provisions.

According to Infraero, there is no differences in the litigation against the federal government. The company told Valor that at the end of the administrative phase, Infraero carries out a legal and economic analysis of the chances of success of the theses to decide on going to court or paying a possible debt.

There are also several cases targeting Banco do Nordeste in the CARF. The bank said in a note that it does not comment on matters related to administrative or legal proceedings that are in progress. In a statement, it affirmed its commitment “with all the rules of conformity, compliance and best practices of governance of public resources.”

Anelize Almeida, attorney general of the National Treasury, said that there is a legal problem in distinguishing between the state with taxing power and shareholders of a semi-public company. “You can’t mix things up and say we’re going to intervene in Petrobras. We’re not. Petrobras is a legal entity governed by private law that has minority, private-sector shareholders. There is a difference in relation to the federal government,” she said.

According to the attorney general, the federal government can even talk to companies like Petrobras about deficiency notices, but only to inform the company of the benefit of making an agreement, for example, as it would with private-sector companies. The prosecutor recalls that Petrobras has already made an agreement that has been fulfilled. "If the company requests an agreement, it is something possible, and we will do it in the best way possible," she said.

Carlos Ari Sundfeld, a Law professor at Fundação Getulio Vargas and founding partner at Sundfeld Advogados, said that governance is very important so that semi-public companies' decisions to appeal or not in the event of defeat are not questioned by minority shareholders or even prosecutors. According to him, there is a concern about them following the standard for the market in which they operate.

"There is a risk analysis," he said, adding that some companies make a decision based on cash flow problems, which leads to different strategies. "For those looking from the outside, it is difficult to know why a company decided or not to litigate," he said.

The administrative debate, according to Matheus Affonso, from Leal Cotrim Advogados law firm, exists in most countries. "India, Belgium and Italy, for example, have administrative litigation not only in the first instance, which is usually a direct entity of the tax administration. There is also a second stage," he said.

According to the lawyer, other countries also have mechanisms such as the transaction, to make agreements and negotiate the payment of tax debts. "It is in the interest of the federal government and the taxpayers that the collection be resolved quickly and with great legal certainty," said Mr. Affonso, pointing out that, in Brazil, the perspective of administrative decisions within one year is usually not met.

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

02/10/2023

BRAZIL'S COFFEE EXPORTS FALL 18% IN REVENUE AND VOLUME IN JANUARY ***Shipments totaled 2.843 million 60-kilo bags, while revenues amounted to \$612m***

Brazil's coffee exports fell 18% in revenue and volume in January compared to the same month last year, the Brazilian Coffee Exporters Council (Cecafé) said on Thursday. Shipments totaled 2.843 million 60-kilo bags, while revenues amounted to \$612 million.

"We are in the off-season, after two smaller harvests affected by adverse weather conditions in recent years," said Márcio Ferreira, president of Cecafé, in a statement. According to the executive, there is still some reluctance on the part of coffee growers to sell the 2022 crop at current prices, which have been falling since October.

According to Mr. Ferreira, the decline in revenue reflects this behavior of international prices. "In addition to exporting less volume, we also had a lower average price per bag in January," he said. The average price was \$215.56, 1.2% lower than the same month in 2022.

The main importers of Brazilian coffee remain the United States and Germany. The U.S. imported 512,400 bags, 30.7% less than the same period last year. Germany imported 442,400 bags (-19.5%), followed by Italy with 193,600 bags (-3.4%), Belgium with 175,790 bags (-50.7%) and Japan with 144,649 bags (-19.7%).

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

02/13/2023

SLOW ECONOMIC ACTIVITY PUTS PRESSURE ON Q4 REPORTS ***Companies likely to present worse figures; those in commodities are exception***

The fourth-quarter earnings season kicks into high gear this week, and companies from the manufacturing companies are expected to report figures with weakening key indicators, in line with the complicated macroeconomic scenario. The persistence of inflation and high interest rates, as well as slower economic activity during the period, are likely to be felt by companies.

According to analysts, revenues will continue to grow year-on-year, driven mainly by price pass-through in the context of high inflation. On the other hand, profits are expected to come under pressure due to high financial expenses. The scenario is still a preview of what can be expected in 2023, with macroeconomic conditions and the effectiveness of cost cuts made in 2022 indicating the pace of retail, while the threat of a global slowdown and the unfolding of the conflict in Ukraine will indicate the path of exporters and commodity producers.

According to XP's calculations, revenues of companies that make up Brazil's benchmark stock index Ibovespa are likely to rise 17.6% year-on-year to \$32.3 billion. Profits are expected to reach \$4.24 billion in the fourth quarter, up 7% year-on-year. Compared to September, revenues are expected to rise 1.75% and profits are expected to fall 5.46%.

Analysts Fernando Ferreira, Jennie Li, and Rebecca Nossig wrote that companies will continue to benefit from favorable economic indicators on a year-over-year basis, but investors will be evaluating the impact of inflation on results to see if companies still have the ability to pass on higher costs to consumers, as well as signals of the growing recession risks.

Bank of America (BofA) expects earnings per share to fall 1% in the October-December period, while revenues are expected to rise 10% in 2021. Compared to the third quarter, revenues are expected to rise 7%, while earnings are expected to fall 1%.

According to analysts David Beker, Paula Andrea Soto, and Carlos Peyrelongue, technology and telecommunications companies will post positive results, supported by the resilience of revenues, as well as oil and gas producers and mining companies, which are driven by the high prices of oil and iron ore on the international market.

For the companies covered by Santander, net income is expected to fall 14.3% year-on-year, pressured by the rise in interest rates and the economic slowdown in Brazil in the last three months of the year. Revenues will grow 4.9% year-on-year. Compared to September, earnings are expected to fall 13.1% and revenues 4.6%.

Analyst Aline Cardoso says that the third quarter results were driven by the 0.4% GDP growth in the period. However, for the fourth quarter, the Macro team estimates a 0.2% contraction in economic activity compared to September, which will affect the results of the companies it covers.

The mining sector will be a highlight in the fourth quarter, with Vale and other companies boosted by the price of iron ore, which rose 16% in December, to \$117.35, narrowing losses for the year to 1.4%, according to the Platts index survey by S&P Global Commodity Insights. The prospect of China's economy reopening supported prices.

Vale's fourth-quarter production was 80.8 million tonnes, down 1% year-on-year. Analysts expect the company's financial results for the period to be driven by higher prices in the fourth quarter, despite the lower volumes and the appreciation of the real against the dollar in the last three months of 2022.

The barrel of Brent oil saw a 21.1% appreciation in 2022, closing the year at \$85.9, which will help keep the results of Petrobras at high levels, although lower than those seen in the first half, when the barrel exceeded \$120 amid the conflict in Ukraine, says BofA.

On the other hand, fuel distributors will post weak results, following the trend of the year, with inventory losses and low volume growth, according to BTG Pactual. Analysts Thiago Duarte and Pedro Soares wrote in a report that the reduction in federal taxes will continue to cause a deterioration in the margins of the main companies in the sector – Vibra, Ultrapar, and Raízen.

Steelmakers are likely to report poor results, with Usiminas and Gerdau as negative highlights, wrote Santander analysts Rafael Barcellos and Arthur Biscuola. The sector's fundamentals are deteriorating, with lower prices for flat and long steel in Brazil, along with lower volumes and higher costs, likely to weigh on the numbers.

In an analysis that excludes commodity and energy companies – in other words, Vale and Petrobras –, BofA points out that the companies' earnings per share will fall 3% in a year and revenues will rise 6%, reflecting the greater participation of companies operating in the domestic sector.

For the beginning of this year, the banks expect commodity prices to remain high. Oil, with reduced supply, is expected to remain around \$80 a barrel, says Citi. Iron ore is dependent on China's economic recovery, while pulp is showing signs of weakening after a long period of high levels, as Klabin pointed out in its fourth-quarter results.

According to Itaú BBA, retail companies, a sector that is going through a delicate moment, will report mixed figures. On the one hand, those that deal with food will have sales that are still at high levels, driven by inflation. Retailers that cater to high-income consumers will also post strong numbers, while apparel and e-commerce companies will remain under pressure.

For Goldman Sachs, there is a movement of real wage growth amid slowing inflation in recent months. With unemployment remaining low, consumer sentiment is improving, say analysts Irma Sgarz, Felipe Rached, and Gustavo Fratini. In the short term, however, discretionary retail demand will continue to face difficulties.

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

02/13/2023

PÁTRIA CREATES DISTRIBUTED GENERATION PLATFORM

With investments up to \$120m, renewable energy platform could reach 200 MWp in 24 months with construction of 35 to 40 solar plants

With an eye on the growth and gains of distributed generation (DG), the asset management company Pátria launched Élis Energia, a renewable energy platform that will develop and operate solar projects in Brazil. With investments of up to \$120 million from the Pátria Infraestrutura IV fund, Élis Energia expects to reach an installed capacity of 200 megawatts-peak (MWp) in 24 months with the construction of 35 to 40 solar plants.

The plants will be located in seven states in the Central-West and Northeast regions. The strategy is to supply electricity from the solar farms to retailers through long-term contracts.

Pátria, through Essentia Energia, operates in the electricity sector with large-scale plants, specifically in the free market, but the exponential growth of distributed generation has attracted the company's attention, in large part because of the benefits of subsidies that guarantee free use of the distribution grid (TUSD) until 2045 for projects that applied for connection to the grid by January 6, 2023.

Élis Energia's CEO, Pierre-Yves Mourgue, explains that the goal is to enter the low-voltage market through distributed generation, focusing on the development, implementation, operation, and financing of units of up to 5 MW for more pulverized consumers.

Élis Energia's first contract was signed with Evolua Energia, a company also active in the DG segment, for the supply of up to 80 MWac (almost 110 MWp) of installed capacity. The agreement provides for Evolua to purchase 40 MWac of energy for 20 years, with an option for a further 40 MWac. Élis Energia also signed a contract with Safira Energia for the supply of 20 MWac.

"Distributed generation is becoming more common for small B2B and B2C customers and we will interact indirectly. We are an infrastructure company and we will not be involved in the commercialization of this power. Our responsibility will be to deliver the power to the utility's grid and to our customers, who are working with shared DG, who are capturing and managing the customers," he said.

In this way, partners will be responsible for managing and capturing the customers, in addition to the costs of digitization and marketing. Élis Energia will be the power generation company. The implementation of all the plants is expected to take place by the end of the year, and they are expected to be operational by the end of 2024 to fit into the regulatory window and ensure the discount for the use of the distribution network.

“The investment comes from the \$120 million infrastructure fund and will be supplemented by debt, because the 200 MWp will have a total investment of a little more than R\$1 billion, taking into account equity and debt,” he said.

The executive said that he is negotiating with other power trading companies for future contracts, with the perspective of covering the total of its planned capacity. The company has registered more than 400 MWp of projects but is aware that not all of them will be implemented due to the tight deadline to ensure full exemption from the rebate.

However, the solar industry is trying to convince lawmakers to extend the subsidy for six months. According to Mr. Mourgue, this would be an opportunity to revise the target upwards and bring more projects into the portfolio as the business model becomes more attractive.

“It will be an opportunity to bring in more projects. If this happens, we will have a window of six more months to increase the target of 200 MWp set by Pátria’s investment committee, knowing that the management company’s ability to mobilize funds shows that we will have no problem investing more,” he said.

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

02/13/2023

SIGMA TO SHIP BRAZIL’S FIRST LITHIUM CARGO TO CHINA IN APRIL ***Country becomes leading producer of high-purity battery-grade lithium concentrate***

The exact date has not yet been set, but Brazil’s first shipment of high-purity battery-grade lithium concentrate will leave the country in April. This is the forecast, and the ship will set sail from the port of Ilhéus (Bahia) with 15,000 tonnes of product bound for China. This volume, and much more in the future, will supply Chinese refineries that are suppliers to electric car battery makers.

The shipment is groundbreaking. It marks a new era in the extraction and processing of lithium in Brazil, which is now one of the world’s leading producers of the most sought-after raw material by carmakers. There is a global race among these companies to lead the new generation of “green cars,” with zero carbon emissions.

The lithium is mined and processed in the Jequitinhonha River Valley, one of the poorest regions in Brazil, in the north of Minas Gerais. This is where the country’s main lithium mineral reserves are located.

The product is extracted from open pit mines in the municipalities of Araçuá and Itinga and transported by truck 500 kilometers to the city of Ilhéus after being processed.

Sigma’s ore processing facilities have been in the commissioning phase since December. The purification unit for the material coming from the mine, after the grinding stages, has a technology that does not require chemicals. It produces a refined product that is the raw material for battery manufacturers.

There will also be no dam for the final slurry: all the production tailings will be dry stacked. The water captured from the Jequitinhonha River is treated and almost 100% recirculated, replacing only what evaporates. As the river is virtually an open-air sewer, the company had to invest in a treatment station to be able to use the water in its processes.

The energy used in the industrial plant is renewable — it comes from Cemig’s Irapé hydroelectric plant, which has a capacity of 360 MW.

“We are the first company of the second-generation lithium producers to join the market in five years,” said Ana Cristina Cabral Gardner, Sigma’s CEO and co-chair. In recent years, there have only been expansions of existing companies in Chile, Australia, the United States, and China.

Ms. Cabral is co-manager of the private equity fund A10 Investments, which holds a 48% stake in Sigma. She came from the financial industry, and has run the lithium company for more than five years. She made a point of saying she is working in technical and corporate management, ESG, and institutional and investor relations.

The project began to mature and gain momentum five years ago, in an area where lithium production had been attempted on a small scale in the past. Sigma has already invested R\$1.5 billion, and the amount could reach R\$2.3 billion by the end of 2024. By then, two new production phases will be added. This will result in an annual production of 104,200 tonnes of high-purity lithium carbonate equivalent (LCE) at the project's peak.

The installed capacity of the first phase — in the final stage of equipment testing — is 277,000 tonnes of metal concentrate (37,000 tonnes of LCE). The volume will gradually increase with the next two phases to 811,000 tonnes in the fifth year (2027).

Over 13 years in the three phases, the average annual production will be 624,000 tonnes of concentrate, representing nearly 85,000 tonnes per year of LCE.

Ms. Cabral has been the face of Sigma in the world, attending ESG events, and the COPs in Madrid, Glasgow, and Egypt. She always discusses and debates environmental and social issues and points out that Sigma is developing a sustainable lithium project.

Ms. Cabral said it was an uphill battle to secure this project concept. “We spent an additional \$130 million to have an industrial plant to separate and purify lithium with new technology that does not use chemicals.” This dense medium separation (DMS) plant is digitally controlled with optical sensors to obtain a pellet — from 0.5 to 6.5 millimeters — with a high degree of purity.

It would be cheaper to use the traditional flotation separation system, which uses sulfuric acid and produces ultra-fine tailings.

“We are a company fully anchored by private-sector capital, which is ahead with the installations and production schedules,” says the executive, who is happy but in a hurry amid several meetings, decisions, and trips to the project in the final phase of the work.

Sigma went public on the Toronto Stock Exchange in 2018, raising \$20 million — half of which was used for a pilot plant and a comprehensive environmental study.

The competition was fierce, recalls Ms. Cabral, with 289 companies looking for capital. “There were three left — us, Lithium Américas, and Core. Nobody believed in lithium in Brazil. We were the underdogs,” says the executive. Today, the company's market capitalization is over \$3.2 billion.

The money for the venture came from several investors in the company, such as the funds BlackRock, CQS, JGP, Waratah, Synergy Capital, Janus, ACE, and family offices, among dozens of other institutional investors, and also future supply contracts — including LG Energy Solution — and financing.

In December, Synergy, a United Arab Emirates fund, released \$100 million for Sigma to speed up its operations and remain financially sound until August. “There is no taxpayer money in the project,” says the CEO.

Ms. Cabral says that the company will begin to generate cash in the second quarter. Annual production is estimated at 178,000 tonnes of lithium concentrate — eight months of effective operation. Considering concentrate prices in the international spot market of about \$5,700 a tonne, it is expected to generate revenues of about \$1 billion in 2023.

This figure, recalls the CEO, does not consider the premium Sigma has to pay for supplying a sustainable “green” lithium to the market, which can be up to 30%. “The return on the additional cost of our technology and also because we lost part of the lithium reserves (25%) to preserve a river, the Piauí, which served local communities, comes with this premium for our product,” she said.

Based on estimates of future metal prices from specialized consulting firms, Sigma Lithium's average annual net revenue is projected at \$2.4 billion over the 13-year lifespan of the project as it is today. EBITDA will be \$2.14 billion. The EBITDA margin will be the envy of many companies — 89%.

Since the second half of 2020, when the race to produce electric cars resumed strongly, lithium prices have skyrocketed. The metal rose more than 430% in 2021 —to \$43,540 a tonne from \$8,160. Last year, another jump: it passed \$84,000, according to data from Benchmark Minerals Intelligence, from London.

For this year, the forecast is for a value of around \$64,200, and it is expected to remain above this level until 2026. Until then, the supply-demand ratio will remain tight due to the increasing production of electric vehicles and the desperate search for lithium supplies.

The German prime minister, on a recent visit to Chile and Argentina — owners of vast lithium reserves —, raised the issue with the governments of both countries to secure supplies for German automakers. U.S. President Joe Biden announced a subsidy program for lithium producers in the country. Automakers such as General Motors are investing in lithium production projects.

Sigma is working with a market price of \$5.77 a tonne for its product. Ms. Cabral points out that the company's lithium has significant differences from the lithium of its competitors in the world, which guarantees it a "green" access to Europe (a market with barriers) and the premium.

"Our pre-chemical has low levels of contaminants — iron oxide and mica — and alkaline elements" like potassium and sodium, she said. The material sold to serve the carmaker Tesla requires 99.9% purity, while LG requires 98.5% (or 56.7% lithium hydroxide), says the executive.

To improve the environmental profile of the ESG program, the company will replace diesel with biodiesel in the mine fleet. The same will be done with the lithium transporters to the Port of Ilhéus. The goal is to achieve carbon neutrality by 2025. Today, it generates 0.27 kilograms of CO2 equivalent per kilogram of concentrate produced. With the new measures, it aims to have 0.072 kg of CO2.

Sigma Lithium is the fourth largest lithium producer in the world, highlights the CEO, who refuses to be classified as a mining company. "Sigma is part of the materials industry, producing a highly purified pre-chemical. It is not a producer and seller of ore that comes out of the mine at \$50 a tonne. From the mine, we add value 80 times," she said.

The executive, who visited 23 lithium refining plants in China in 2018, points out that Sigma is joining a competitive global market, where strong groups such as LG, Panasonic, CATL and Samsung (batteries), and dozens of lithium producers are present. "Several newcomers are coming," she said.

The company's stocks are currently trading in Toronto in the \$40s, although it is still in the pre-operational stage.

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

02/14/2023

FOREIGNERS INCREASE INVESTMENT IN BRAZIL WHILE MONITORING FISCAL RISK ***Brazilian assets gain space in portfolios, but post-election enthusiasm has cooled***

In the first weeks of the year, investment banks sat down with foreign investors to talk about Brazil. In private meetings and at events held in January, foreign fund managers heard about the scenario and showed interest for the country, but raised questions about Brazil's fiscal framework. Some have already started to invest, mainly driven by President Luiz Inácio Lula da Silva's new environmental agenda, but with less intensity than predicted after the elections.

Data from EPFR, a consulting firm that measures the flow of funds globally, help to measure the appetite for Brazilian assets. The analysis shows that the country ended the year with a position of 6.31% in funds dedicated exclusively to emerging markets. The figure shows a decline from the share of last October, after the first round of elections, when it reached 7.93% — the highest since the end of 2019.

In any case, these figures are a far cry from those seen in the past. At its peak, in 2011, this share was 16.4%. The trend was the same when considering the funds dedicated to Latin America. The share of Brazilian assets, which reached 62.15% in October in these portfolios, fell to 59.12% at the turn of the year, according to data compiled by the consultancy.

The exposure of global funds, which reached 0.9% in October, fell to 0.68% in December. Brazil's highest share ever was at the end of 2009, during Mr. Lula's second term, when it reached 1.94%.

During the Bolsonaro administration, a period of global concern about the Amazon rainforest, the share of Brazilian assets in emerging markets funds was 4.34%, the worst ever.

Under President Lula again, the uncertainties about the environmental agenda diminished. But foreign investors still want to know how Mr. Lula's economic team will build Brazil's new fiscal framework, which will replace the spending cap, and how the tax reform will be carried out by Congress. The American crisis also continues to generate a lot of questions. Investors are wondering what the impact will be not only in the retail sector, but also in other segments of the economy.

Banks have picked up on these investment intentions. In mid-January, Santander held a conference for Latin American countries in Cancun, Mexico, and the biggest interest from investors was in Brazil, said Gustavo Miranda, head of Santander's investment bank in Brazil. "Brazil was the most mentioned country [among emerging markets]. They don't see a risk of contagion, they see a positive fiscal reform, and they have a clear idea that interest rates will go down and that this will benefit the local stock market," he said.

According to Mr. Miranda, the view is that the risk/reward in Brazil is the most attractive of the emerging markets at the moment. "There has also been talk of India, but it is more expensive than the Brazilian stock market," he said. Mr. Miranda points out that the end of the election season in Brazil and a more benign global economy at this time boosted risk assets at the beginning of the year, and this has helped bring capital to Brazil, mainly because equities are traded "at a discount." "There are a lot of high-quality companies with interesting entry points. The investor is looking in a pragmatic way, a risk asymmetry," said the Santander executive.

Felipe Thut, head of Bradesco BBI's investment bank, believes that Brazil has the opportunity to grow again in the portfolio of funds dedicated to emerging markets. The executive noted in meetings with global investors a greater interest, a movement that was demonstrated by the positive flow of foreign capital in this beginning of the year, which totaled about R\$13.5 billion. "Brazil is racing alone among emerging markets. If you look around the world, Brazil is very cheap," said the executive.

Mr. Thut said foreigners have already calculated risk and reward. According to Bradesco BBI, the dollar return on the Brazilian stock market in the projections is estimated at 17% in 2023, taking into account the depreciation of the dollar and the appreciation of the stock market itself over the period. "The risk/reward is very favorable," he said.

Pedro Mesquita, head of XP's investment bank, emphasizes that foreigners want to come to Brazil, but at the moment they are adopting a wait-and-see approach. "After the elections in Brazil, the lock was taken off the gate for foreign investment, but it hasn't been opened yet. There is a lot of noise, especially about the country's fiscal responsibility. When we have [clearer] answers on this issue, money from abroad will come," he said.

For economist Danilo Passos, with the asset management firm WHG, Brazil has benefited from improved expectations for the global economy, with the chances of a very sudden slowdown in global economic activity diminishing. "Brazil is also surfing the China wave very well, with the country's indicators improving after the easing of the Covid-19 measures," he said.

The reopening of China will directly benefit the price of commodities, a sector with great weight in the Brazilian stock market, investment bankers say. However, the political noise in the country has made some of these potential investors cautious.

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

02/15/2023

BRAZIL MUST STOP WASTING POWER FROM HYDROELECTRIC PLANTS, ENGIE CEO SAYS

Weak growth of demand, lack of reservoirs for storage, restriction to export surplus to neighboring countries, and no consumption incentives create scenario of waste

Brazil must think about ways to make rational use of the power that is currently wasted by the country's hydroelectric plants, said Mauricio Bähr, CEO of Engie Brasil, during BTG Pactual's CEO Conference on Tuesday.

Brazil's hydrological situation is the best in 11 years, with reservoir levels above 75%. However, the weak growth of demand, the lack of reservoirs for storage, the restriction to export surplus electricity to neighboring countries, and the lack of incentives for consumption are creating a scenario of waste.

According to the executive, Brazil urgently needs to think about ways not only to bring forward long-term contracts but also to rethink the regulatory aspects of more rational use of the available energy instead of release water without generating electricity.

"Pricing is very dependent on hydrology, on the perception of this abundance, but it is good to consider some aspects: In the past, we had hydroelectric reservoirs that could supply Brazil for several years. Today we are moving towards the development the run-of-river hydroelectric plants, that is, without reservoirs, and this does not guarantee multiple years. We are having a very good year of 2023 in terms of reservoir levels, but none of this guarantees that 2024 will be at that level," he said.

One way to create more efficiency, he said, would be to increase interconnections in Latin American countries with neighboring countries. "Take advantage of this moment of return to dialogue with neighboring countries and increase our connections between Brazil, Argentina, and Uruguay," he said. "Exchange with these countries amounts to no more than 2,000 average megawatts, which is very little."

Data from the Brazilian National Electric System Operator (ONS) show that January was the worst month in the historical series in terms of not using water for power generation. A total of 9,404 MWh was wasted, an amount greater than the entire production of the Itaipu power plant in the same period. This is equivalent to the consumption of the entire southern region of Brazil.

Mr. Bähr recalls that in this window of opportunity, Brazil could provide an incentive for those industrial consumers consuming diesel oil during peak periods to switch to a cheaper energy that is being wasted.

For him, Russia's war against Ukraine would be a learning model since Europe relied on an infrastructure built over decades that allowed it to guarantee the security of supply in the absence of Russian gas. "We need to take advantage of moments of energy bonanza to build our infrastructure," he said.

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

02/15/2023

AGREEMENTS COULD INCREASE USE OF RENMINBI IN BRAZIL-CHINA TRADE

Cooperation between central banks and participation of Brazilian bank in China's payment system will facilitate transactions

The use of renminbi, the Chinese currency, may soon be expanded in transactions between Brazil and China, advancing plans to gradually reduce the hegemony of the dollar. And this will happen in two steps.

First, the People's Bank of China, China's central bank, announced last week the signing of a memorandum of understanding with Brazil's Central Bank to establish renminbi clearing arrangements in Brazil.

In a four-line note, the Chinese monetary authority stressed that the agreements will help companies and financial institutions in the two countries conduct cross-border transactions using the Chinese currency and further facilitate bilateral trade and investment.

China has such agreements with more than 25 countries to settle payments in renminbi with direct access to domestic (China National Advanced Payment System, CNAPS) and international (Cross-Border Interbank Payment System, CIPS) payment systems.

Brazil's Central Bank told Valor that the memorandum will take into account a requirement under Chinese regulations that the Chinese monetary authority itself select, at its own discretion and privately, without the participation of the Brazilian monetary authority, an institution authorized to operate in foreign exchange in Brazil to act as an "offshore clearing bank" in the country.

According to the Brazilian Central Bank, the "eventual implementation" of the agreement in the country, including the possibility of new entrants under the same framework, has the potential to bring the following benefits to business models using the renminbi in Brazil: increased local liquidity of the Chinese currency; maintenance of hard currency foreign exchange reserves in the country; reduction of intermediaries in international payments; and rapprochement between the Brazilian and Chinese payment systems, with increased operational efficiency in terms of cost and time reduction.

According to the Central Bank, after negotiations, the proposal was forwarded by the People's Bank of China, and Brazil's Central Bank agreed to its terms, as it is subject to the primacy of the countries' internal legislation, such as the Foreign Exchange Law.

"I think China will put more pressure on the use of the renminbi in bilateral trade," said Marcos Caramuru, Brazil's former ambassador to China (2016-2018), partner at the consultancy Kemu, and one of Brazil's leading China experts. "The goals are less use of the dollar and more predictability for those involved in trade, getting rid of currency fluctuations."

Alexandre Lowenkron, CEO of the bank Bocom BBM, notes that the Chinese, as the largest buyers, can decide in which currency to pay, and this will drive the use of renminbi in bilateral trade.

The second step will come in March, during President Luiz Inácio Lula da Silva's visit to Beijing, when Bocom BBM will become the first Latin American institution to become a full member of CIPS, the cross-border interbank payment system that China launched in 2015 to internationalize the use of the renminbi and compete with SWIFT, the U.S.-controlled system. CIPS went live after Russia was hit with international sanctions over its invasion of Crimea the previous year. The system is still small compared to SWIFT, but its reach is growing.

In November 2022, the renminbi maintained its position as the fifth most active currency for global payments by value, with a share of 2.37%. In terms of international payments, excluding transactions in the eurozone, the Chinese currency ranks sixth globally, with a share of 1.63%.

In Brazil-China trade, bilateral transactions essentially use the dollar as an intermediary instrument for conversion between the two national currencies. Using a third currency in transactions increases their cost and adds a source of currency risk.

Mr. Lowenkron says that even before the bank joined CIPS, companies' interest in using the Chinese currency for foreign exchange transactions, issuing letters of credit to finance exports, hedging, and investing in Chinese companies had increased significantly. The executive sees more opportunities to access overnight financing, in addition to cheaper and faster transactions with Brazil's largest trading partner.

In financial circles, the renminbi is expected to gain traction this year as the Chinese central bank implements the government's strategy for using the currency abroad in a plan to challenge the long-term dominance of the U.S. dollar.

The use of the currency to pay for exports and imports has already increased in Russia and Southeast Asia. In Latin America, Argentina signed an agreement with China late last year to facilitate bilateral transactions without the need for a third currency.

Ken DeWoskin, a China expert at consulting firm Deloitte, believes that the China-Brazil deal could in theory make trade and investment transactions more efficient. But he says it's important to see whether central banks are willing to adopt the renminbi as a reserve currency, and whether mechanisms are in place for different trade and investment counterparties to use the Chinese currency – in Brazil, the Chinese currency had zero share of foreign exchange reserves in 2018, rising to 5% of the total by 2021, Mr. Lowenkron notes.

“China's goal is to be able to use its own renminbi to buy Brazilian commodities instead of having to use its U.S. dollar reserves,” he said. One question is whether Brazilian commodity exporters like mining giant Vale would rather take renminbi and exchange it for reais under this agreement, or take it in dollars that they can use anywhere for trade and investment. Also, the fact that the exchange value of the renminbi will be set administratively by China's central bank rather than by the markets will have the effect of stabilizing or distorting the value of the currencies. Mr. DeWoskin questions whether the agreement will increase efficiency or introduce new risks to commodity purchase contracts denominated in the Chinese currency.

Cassio Von Gal, executive vice president of Bocom BBM, believes that once the two instruments – the agreements between the central banks and the CIPS – are in place, there will be interest among large Brazilian exporters of pulp, minerals and proteins in using the Chinese currency. The question is whether, for example, the large grain and fuel export trading companies will join.

The internationalization of the Chinese currency is gradual but inevitable. More than 76% of international transactions are still paid in U.S. dollars and euros. However, the renminbi's share has increased and it is now the fifth most traded currency in the world, surpassing the Japanese yen and the Swiss franc. China is the world's largest trading nation, but its renminbi transactions are modest, accounting for between 15% and 20% of its total trade volume – so there is plenty of room for growth.

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

02/16/2023

BANKS' DISPUTES WITH TAX AUTHORITIES AMOUNT TO R\$95BN ***Many discussions are related to acquisitions of other lenders, amortization***

Five of Brazil's largest private-sector banks have at least R\$95 billion in disputes with the Secretariat of Federal Revenue in discussion in the Administrative Council of Tax Appeals (CARF), according to an analysis by Valor based on the companies' reference forms.

Itaú Unibanco accounts for most of this amount, R\$65.2 billion, driven by what is known as the agency's highest value case, a deficiency notice of R\$29.6 billion that the bank won in the first trial at CARF and is now awaiting analysis by the Superior Chamber, which still has no date.

Many of the tax discussions are linked to privatizations or acquisitions of other banks and goodwill amortization. The motivation of the Secretariat of Federal Revenue to collect taxes, mainly income tax (IR) and the Social Contribution Over Net Profit (CSLL), is that the operations had no business purpose or used intermediaries just to pay fewer taxes.

Bradesco has six cases amounting to R\$10.5 billion, while Santander has eight cases totaling R\$9.5 billion. BTG has six cases amounting to R\$8.2 billion. Itaú has 10 cases before CARF, while Banco do Brasil has one case of R\$2.2 billion. The figures were obtained in the last available reference form of each bank and are in CARF's case base — other disputes may not have been reported.

CARF has 168 litigations worth billions of reais. They total R\$463.8 billion — almost half of the R\$1 trillion in cases awaiting trial. Changing the rules of the agency is one of Finance Minister Fernando Haddad main bets to reduce the public deficit by increasing tax collection.

The main case involving Itaú Unibanco and CARF concerns the merger of Itaú and Unibanco. The deal took the form of an exchange of shares, with no cash disbursement, forming, and creating one of the 20 largest banks in

the world at the time. The bank won in the first instance of CARF, and the Treasury's appeal has been judicialized, and may still return to the agency. In this deficiency notice, the audit states that Unibanco's shareholders sold their shares to the Itaú holding company for about R\$12 billion. The amount paid was lower than the stocks' market value and then Itaú, through a new holding company, bought the shares for a higher price — about R\$29 billion — generating a capital gain.

The lack of business purpose is a common allegation made by the Treasury in transactions involving the amortization of goodwill generated by acquisition or mergers. Of the six administrative proceedings filed by BTG Pactual, for example, five are related to goodwill — four of them are related to the amortization of goodwill generated by the acquisition of Pactual by UBS in 2006 and the acquisition of the bank by BTG in 2009.

It is common that there are many deficiency notices for the same reason but for different years. This is also the case with the taxation of profit-sharing programs (legally known by the acronym PLR). The Secretariat of Federal Revenue taxes these amounts when it considers them to be disguised salary payments. In the case of Santander, this is the most relevant thesis, which has led to a total of R\$4.1 billion in deficiency notices.

The lack of goodwill cases in the courts makes interpretations difficult, said lawyer Gisele Bossa, at Demarest. "There is no consolidated jurisprudence in the judiciary in favor of one side or the other," she said. According to Tiago Conde, a partner at Sacha Calmon Misabel Derzi Advogados, favorable court decisions may not make the settlement of claims by agreement attractive. "The judiciary branch does not have the excessive rigor of CARF. The attractiveness of the agreement will depend on the risk appetite of each legal department," he said.

Attorney Breno Vasconcelos points out that financial institutions usually grow via the acquisition of other companies, and these operations usually generate litigation because of their complexity.

Banks did not immediately reply to the requests for comment.

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

02/17/2023

TRUCKS JOIN DEBATE ON HOW TO TAX ELECTRIC VEHICLES ***Volvo is in favor of incentives for imported models***

The discussion around the taxation of imported electric vehicles has reached the trucks. Volvo Group CEO in Latin America, Wilson Lirmann, says the company is awaiting a position from the government to proceed with the plan to sell imported electric models. According to him, Volvo is in favor of tax exemption for all electric trucks "during a certain period of adaptation" and upon commitment of investments in the country. "This is a policy consistent with a long-term strategy," he said.

Today only one type of electric truck is exempt from import duty. This is the so-called rigid truck, in which the body is attached to the vehicle's frame. But most heavy-duty models, a Volvo specialty, are of the tractor-type, which always pulls a trailer. Imported tractor trucks are taxed at the maximum rate of 35%.

According to him, the company has already brought some electric models for demonstrations and tests in Latin America. But Brazil is the only country in the region with an import tax on part of the electric trucks. "The cost of electric models is high and requires an infrastructure that is not ready," he said.

Mr. Lirmann proposes that, in Brazil, the incentive of tax exemption be granted to companies that commit to investments in the country. The executive also foresees that in Brazil, the decarbonization process of transportation will involve more than one type of technology, including, with force, biodiesel and biogas.

Volvo has set a goal to have 50% of globally sold vehicles free of carbon dioxide emissions by 2030 and 100% by 2040. From 2050, according to these goals, 100% of the circulating fleet would be free of CO2 emissions.

The executive also proposes that, in the case of electric models, the government review national content requirements for the concession of financing lines. "We will always use local supply. But in the case of electrics, it

is necessary to find new parameters because Brazil will have to enter the global chain,” he said. “One of the issues concerns battery cells. It is necessary to understand that the nuances involving electric trucks are not the same as for diesel vehicles,” he adds.

Volvo is also beginning to test electric city buses in five major cities in the region – São Paulo, Curitiba, Rio de Janeiro, Bogotá, and Santiago. These buses have chassis imported from Sweden and Brazilian bodywork.

This would be a year of good sales for the heavy truck industry, taking into account the expectation of another record grain harvest and the continued demand in the mining sector. But other factors weigh against it.

The main one is a new emission law, the so-called Euro 6, which demands more equipment in the vehicles, raising production costs between 20% and 25%. “We will have to pass on a good part of this cost,” said Volvo’s head of trucks, Alcides Cavalcanti.

To avoid price increases, many transporters accelerated purchases in 2022, which led the company to close the year with records. The sales of trucks grew 10%, to 24,100 units in 2022, which made Brazil the second-largest market for the Swedish brand, only behind the United States.

The production in the Curitiba plant totaled 31,100 trucks, up 12% from 2021. The growth was the result of increased demand also in countries that receive Brazil exports, such as Chile and Peru, where the brand’s sales increased 25% and 17%, respectively.

Mr. Lirmann also highlights as “points of attention” the global inflation, as an effect of geopolitical tensions, in addition to the challenges in the supply chain, still affected by the shortage of semiconductors. According to the executive, this issue is out of the critical phase, but may worsen again as the economy recovers.

The persistence of high interest rates is also a concern for an industry that could offer consumers longer financing plans as a way to compensate for price increases. Given this scenario, Volvo’s management team estimates that the Brazilian heavy and medium-duty market in 2023 will reach volumes around 75,000 units, down 23.4% compared to 2022.

“This will be a year of caution,” said Mr. Lirmann. According to him, the pressure of interest rates affects not only the sales of vehicles but also the activity of the companies that buy the trucks, such as the construction sector.

“The interest rate reduction is not something that can be solved by decree because it involves inflation, as we have already seen other times,” he said. For the executive, the fiscal issue is also important. “But it is not the only one to be taken into account in a country where the government takes a lot of funds [through taxes], but gives little back in terms of investment and services such as education.”

Mr. Lirmann also complains about “rules that change all the time” involving not only the Executive branch, but also the Legislative and the Judiciary. And cites as an example the proposed change in the Law of State-Owned Companies, which came to light in December, in addition to a series of issues that can be reviewed by the courts.

“It is necessary to have a little more predictability and when we talk about reforms it is necessary to make movements, even if small, but aimed at a certain construction. If we don’t unite, if we continue with fragmented interests, we will have difficulties to advance,” he said.

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

02/22/2023

NEOENERGIA MULLS BUYING COELCE, BUT WILL NOT “DO ANYTHING CRAZY”
CEO Eduardo Capelastegui says company is growing organically, must take advantage of that

Neoenergia is analyzing opportunities in the distribution sector, including the possibility of acquiring Coelce, the Ceará-based distribution company whose concession was put on the block by Enel, but the company will not “do anything crazy” in the competition for the asset. CEO Eduardo Capelastegui said that the financial market is very

volatile and the company is growing organically, and “we need to take advantage of that” with investments of around R\$5 billion over the next three years. The volume of investment in Neoenergia’s distribution businesses over the next few years, according to Mr. Capelastegui, would therefore correspond to “almost one Coelce.”

“We’re not going to do anything crazy,” Mr. Capelastegui said Thursday in a conference call with analysts on 2022 and fourth-quarter results. Enel has hired BTG Pactual to advise it on the company on the sale of the distribution company, in a deal that could reportedly reach R\$6 billion to R\$8 billion. This is the second distribution business to be divested by the Italian company, which last year sold Celg to Equatorial Energia.

Mr. Capelastegui also said that Neoenergia Brasília – formerly CEB, the last distribution business acquired by the company – achieved for the first time after eight consecutive quarters a loss ratio below the regulatory percentage set by the Brazilian Electricity Regulatory Agency (Aneel).

The ratio of 11.78% was achieved two years ahead of the target set by the company. In addition, the main quality indicators (DEC and FEC, which measure the duration and frequency of supply interruptions) were below the regulatory target one year ahead of Neoenergia’s target.

The company is also analyzing its participation in the transmission auctions planned for this year, including one in December with many lots in the Northeast region for the distribution of renewable energy.

Despite analyzing the auctions, as it has done for the last five years, Neoenergia will study the participation in the bids with caution, keeping in mind the current macroeconomic scenario. Mr. Capelastegui emphasized that the company has a defined investment policy, but that they will not take risks beyond what is necessary. “We will be rigorous,” he said.

The executive highlighted that in the coming months Neoenergia is expected to complete the construction of the Oitis wind complex, located in the states of Piauí and Bahia, and the Luzia solar complex. Oitis consists of 12 wind farms with a total capacity of 566.5 megawatts. Of this total, 390.5 MW are already in operation. The Luzia solar farm, located in Paraíba, has an installed capacity of 149.3 megawatts-peak and will share transmission infrastructure with the company’s Chafariz wind farm.

Leonardo Gadelha, Neoenergia’s chief financial and investor relations officer, said that the materialization of the company’s investments made the net debt close the fourth quarter at R\$36.5 billion, up from R\$34.9 billion at the end of the third quarter last year. Despite the increase, Mr. Gadelha said that Neoenergia’s debt structure remains comfortable. The higher debt increased the leverage ratio, which represents to a net debt-to-EBITDA ratio of 3.15 times in the fourth quarter, up from 3.13 times in the third quarter.

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

02/27/2023

SUPREME COURT DECISION INCREASES TWO TAXES ON SOFTWARE ***Social Contribution over Net Profit (CSLL) and Income Tax will rise on off-the-shelf products***

Companies that sell software will see their tax burden increase. A new rule from the Secretariat of Federal Revenue (RFB) — which should be followed by all tax auditors in the country — has changed the classification of the so-called off-the-shelf software sold in retail. This change affects the payments of Business Income Tax (IRPJ) and Social Contribution over Net Profit (CSLL).

This is Consultation Solution number 36, issued this month by the General Coordination of Taxation (Cosit). It affects companies that pay federal taxes under the so-called assumed profit regime. These are all companies with revenues of up to R\$78 million per year, which, according to experts, represent the majority of the sector.

This new rule comes in the wake of a ruling by the Federal Supreme Court (STF) in 2021, in which the justices changed more than two decades of jurisprudence. They determined that both off-the-shelf and custom-made software should be treated as services and taxed by the municipal service tax ISS.

Until then, this only applied to custom-made software. Off-the-shelf software marketed on a large scale was treated as goods and taxed by the state sales tax ICMS.

What the RFB is doing now with the Consultation Solution number 36 is adjusting its rules based on this new STF jurisprudence. Previously, each software had a different classification for income tax and CSLL purposes. One was considered a good and the other a service. Now, both are considered services.

In a way, this reaction was expected by the market. “It would be surprising if, even after the STF decision, the RFB understood that the license to use software could be a service for ISS purposes and goods for IRPJ purposes,” said lawyer Carlos Eduardo Navarro, partner at law firm Galvão Villani, Navarro, Zangiácomo e Bardella.

However, this difference in classification — services or goods — has a direct impact on the company’s cash flow and, consequently, on the prices of the products for the end user.

Companies that are in the assumed profit regime calculate the IRPJ and CSLL in a simplified way. They apply a percentage set by law to their gross sales and the result — called assumed profit — serves as the base for the calculation of the two taxes.

The percentage that defines the amounts that will be taxed varies according to the sectors. Commerce applies 8% to calculate the IRPJ and 12% to calculate the CSLL. For service providers, on the other hand, the percentage is 32% for IRPJ and CSLL.

In other words: those who previously applied the 8% and 12% rates will be required to apply the 32% rate, thus expanding the calculation base for federal taxes.

Attorney Rodrigo Schwartz Holanda, a partner at Menezes Niebuhr law firm, created the hypothetical example of a company with a revenue of R\$1 million.

Under the old calculation, this company would apply a percentage of 8% on the R\$1 million revenue and would come to a tax calculation base of R\$80,000 for income tax purposes. These R\$80,000 would be offered for taxation.

The IRPJ has a 15% rate for amounts up to R\$20,000 and an additional 10% — thus reaching 25% — for amounts exceeding this limit. Applying these rates to the above example — R\$80,000 —, the company would have to pay R\$18,000 in taxes to the government.

To calculate the CSLL, it would have to apply the percentage of 12% to find the calculation base, and on this value — in the example, R\$120,000 — the tax would be levied. The CSLL has a tax rate of 9%. Adding up what this company would have to pay in IRPJ and CSLL together, the total bill calculating the lawyer would be R\$28,800.

But in the new format, using a 32% percentage to arrive at the calculation base for the two taxes, the amounts payable to the federal government would rise to R\$106,800, said Mr. Holanda.

The company goes from an effective tax rate — on its total gross revenue — of 2.88% to 10.68%. “We are talking about a very important issue for the sector. The tax burden will triple,” the lawyer pointed out.

This consultation solution may also open the door to other changes in software taxation. Maria Lucia de Moraes Luiz, of the law firm Bastos-Tigre, Coelho da Rocha, Lopes e Freitas, cites the case of the social taxes PIS/Cofins on imports.

In the case of software, there is no “physical entry” of foreign goods in Brazil. For this reason, the RFB, which considers off-the-shelf software as goods, interprets that PIS/Cofins are not levied. This is the current understanding.

If the IRS changes its understanding — and starts treating software as a service in these situations — the situation changes. As a service, it is enough that there is payment for the services rendered to a foreign resident to attract taxation. The rate in these cases is 9.25%.

“The tendency is that it will be levied. These are correlated situations,” said lawyer Maria Lucia de Moraes Luiz.

On the other hand, Daniel Franco Clarke and Leticia Rodrigues Sugahara, of Mannrich e Vasconcelos law firm, point out that there are situations in which companies can benefit. They cite as an example of remittances abroad for the software licensing or assignment of right of use.

Under the current rule, payments made by Brazilian companies to companies abroad are treated as royalties and are subject to 15% withholding income tax.

Since they are services and no longer goods, they say, these transactions would fall under article 7 of the international treaties. This provision is included in most of the double taxation treaties signed by Brazil and generally states that there can be no withholding tax in Brazil when it comes to the provision of services.

It is also possible, according to the lawyers of Mannrich e Vasconcelos, that this change in the classification of transactions involving software will also benefit companies that have the right to use PIS/Cofins credits — under the non-cumulative regime.

They say that the RFB today does not accept the characterization of royalty payments as inputs. For the IRS, there is no legal provision. The laws of PIS/Cofins state that goods or services used as inputs give the right to credit, and the RFB interpretation is that royalties are not goods or services.

“But as soon as the RFB starts to understand that the licensing and assignment of right of use are services, the expenses with computer programs could not be creditable,” said Mr. Clarke.

All of these nuances are likely to generate judicialization. Lawyers foresee two fronts: one of the taxpayers who will try to apply the new understanding to situations that may favor them and the other of taxpayers against the change promoted by the RFB through Consultation Solution number, which increased the tax burden.

However, this second group against the change should face difficulties in establishing its position. “The STF made a long digression on how software has evolved and is no longer a mere standardized product. The STF itself has evolved in the understanding of what would be a service, and there is no longer the characterization of the obligation to do something. The Secretariat of Federal Revenue has made good use of this reasoning,” said Matheus Bueno, of Bueno tax lawyers firm.

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

02/28/2023

ITAIPU SETTLES DECADES-LONG DEBT FROM CONSTRUCTION OF ITAIPU DAM

Last installment, of \$115 million, was paid on Tuesday, 50 years after Brazil and Paraguay signed a treaty for the binational hydroelectric plant

The Itaipu Hydroelectric Dam paid its last installment on Tuesday, settling the debt for the construction of the plant. The payment of \$115 million was the last one in 50 years after the signing of the contract between Brazil and Paraguay to carry out the largest work of the 20th century. The amount consists of \$107 million to the Brazilian Development Bank (BNDES) and \$8 million to the power company Eletrobras, funds that financed the studies, construction and operation of the plant and ancillary facilities.

In the 1970s, with the support of the Brazilian government, more than 300 financing agreements were signed with about 70 creditors (from Brazil, Paraguay and other countries). Half a century later, Itaipu Binacional remains key to the energy security of both countries. With 20 generating units and 14,000 MW of installed capacity, Itaipu is a world leader in the generation of clean, renewable energy, providing 8.6% of Brazil's and 86.3% of Paraguay's electricity supply in the last 12 months.

Despite the historical significance of the moment, the event was given little importance, and presidents Luiz Inácio Lula da Silva and Mario Abdo Benítez did not attend. Not even the new Brazilian CEO chosen by President Lula, Deputy Enio Verri, was present. The company is still headed by Vice Admiral Anatalicio Ridsen Junior, who was

appointed by former President Jair Bolsonaro. The Minister of Mines and Energy, Alexandre Silveira, had confirmed his presence, but cancelled at the last minute.

Itaipu is the power plant that has generated the most electricity in the world, with more than 2.91 billion megawatt hours supplied to the two countries since it began operating in 1984, enough electricity to supply the entire world for 46 days. The colossal construction effort has resolved a historic border impasse dating back to the 18th century, overcoming energy and diplomatic challenges.

The company highlights the effort and will of the countries that own the company during the debt relief process, seeking financial balance. Among the solutions are the gradual reduction of the interest rates on the current loans, the dollarization of the debt because it is binational, the fixing and later the elimination of the annual adjustment factor to keep the value of installments constant in dollars, among others.

The next step is to revise Annex C, the clause in the treaty that establishes the financial and service bases for electricity. The grandiosity of the hydroelectric plant is also reflected in the regulatory complexity of the treaty that governs its existence. Regarding the possibility of revising the terms of electricity sales, there is talk of freeing up energy sales or leaving the rules as they are. Until the partners find common ground, the terms of the treaty signed in 1973 will remain in place.

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