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NEWSLETTER

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EDP SELLS TRANSMISSION ASSETS TO ACTIS FOR R$2.7BN
According to people familiar with the matter, negotiations lasted about seven months

EDP Brasil signed on Tuesday evening the sale of transmission assets in São Paulo, Minas Gerais and Maranhão to infrastructure fund Actis for R$2.7 billion, Valor has learned.

The company confirmed on Wednesday afternoon that it had signed an agreement with Edify, a company that is part of the manager's fund.

The lines, EDP Transmissão SP-MG S.A. and Mata Grande Transmissão de Energia, are 857 kilometers long and have an annual authorized revenue of R$287.7 million, the company said.

"The operation reaffirms EDP Brasil's asset rotation strategy in the transmission segment, according to the 2023-2026 business plan, and is subject to the verification of the conditions precedent usual for this type of transaction," the company said in a statement.

The process was competitive, with strategic players fighting for the asset, but Actis was more agile and managed to close an exclusive deal in early October, sources said. The negotiations lasted about seven months, said the sources, who spoke on condition of anonymity because the deal is not yet public.

One of the people said that EDP decided to sell the asset to rotate its portfolio and that transactions in the energy sector are still active, which shows the appetite of investors in the area, seen as defensive and protected from inflation.

In the transaction, Citi acted as financial advisor to EDP and Madrona Filho as legal advisor. Bradesco BBI and law firm Mattos Filho acted for Actis.

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

11/06/2023

DISPUTE OVER INTERCEMENT COULD INVOLVE CHINESE GROUP
CSN is interested in assets in Brazil and Argentina; Huaxin has entered the fray

Steelmaker Companhia Siderúrgica Nacional (CSN), owned by businessman Benjamin Steinbruch, has hired investment bank Morgan Stanley to represent it in the dispute over the assets of cement company InterCement, owned by Mover Participações (formerly Camargo Corrêa), Valor has learned.

The company, which is considering a bid for the entire Brazilian operation, has been warned that the move could be restricted by the antitrust watchdog CADE. CSN is also interested in Argentina's Loma Negra.

The battle promises to be fierce as Chinese cement giant Huaxin Cement has entered the fray and competitors operating in Brazil could make a piecemeal bid for InterCement, according to people familiar with the matter. According to a source, European strategic groups are also looking at the deal.

InterCement has cement and concrete operations in Brazil and Argentina, where it owns market leader Loma Negra. Here it is the third largest player. The company has debt of about $1.65 billion, including $548 million maturing in May and bonds placed with three Brazilian banks.

Bids are expected to be submitted this month, a source said. BTG Pactual, which is structuring the transaction, is in charge of receiving the bids and analyzing the best format for the sale, Valor reported in early October.

From what is on the table so far, the design of the sale could be for all the assets or even for a model that slices up the operation, people familiar with the matter said. In addition to the amount to be received, one source explained that the analysis will also consider the process that will lead to a faster conclusion so that the money can be received more quickly.

Another person familiar with the matter said the controlling shareholders do not want to carry out a competitive process. The idea is to evaluate the potential interested parties in order to negotiate with the buyer that fits the best strategy for the shareholders. InterCement may even attract a partner, but it prefers to sell 100% of the company.

Valor has learned that the controlling shareholding family does not want a share swap operation—the company has already been sounded out by a European group for this model. The shareholders have also begun to receive inquiries from Argentinian groups about Loma Negra. In this case, the family wants to get out of the business altogether and sell its 51.04% stake, the same source said.

In Brazil, the sale of all of InterCement's assets could be more complex. One of the issues, Valor has learned, would be a close look at market concentration—especially in some regions—to prevent the sale from falling through the CADE.

Cement companies have been asked about the possibility of forming a consortium to make a joint bid for the assets. This would be a strategy for Votorantim Cimentos, the market leader, to get part of the plants since a full transaction would be red-flagged by the antitrust agency. The company said it "does not comment on rumors or market speculation."

Other companies in the sector that are certainly interested in IC's assets are the Greek company Titan (owner of Apodi in Ceará), the Italian company Buzzi, which is Brennand's co-controlling shareholder, Mizu, controlled by the owner of the concrete company Polimix, and the French company Vicat, which took over Ciplan. They all deny forming a consortium, but privately admit that they will evaluate the possibility of buying assets if there are individual offers.

For its part, CSN, according to sources, is ready to take over both its Brazilian and Argentinean operations in a single package. This would put it in second place in Brazil, just behind Votorantim Cimentos, and make it the main producer in Argentina.

But there is a catch with Loma Negra. CSN wants to wait until November 19 to see who wins the second round of the country's presidential election. Sergio Massa, the economy minister (the current government's candidate), and Javier Milei, a right-wing populist who has frightened businesspeople with his unorthodox proposals, are competing in the final stretch of the election.

Huaxin could be an unpleasant surprise for CSN's plans if it really wants to enter the Brazilian cement market. This year, the Chinese company took over InterCement's assets in South Africa and Mozambique for $265 million and, according to sources, intends to enter Brazil. The cement company is counting on cheap financing from Beijing to make a more aggressive bid in terms of value.

The Chinese, sources say, want to get to know the Brazilian market first, and the country could be the gateway for the group, which also manufactures heavy equipment for the cement industry. The company can produce about 70 million tonnes per year, more than the Brazilian market. Besides several provinces in China, it is present in countries in Asia and Africa.

Sources consulted by Valor say that the game is wide open, but to close the deal more quickly—due to InterCement's situation—a closed package sale to CSN or Huaxin is most likely. The other interested parties would be looking for "leftovers" if CSN wins and CADE imposes some remedies, such as the sale of certain assets in the Southeast region and in states such as Paraíba, where CSN already operates two plants out of a total of four.

InteCement and CSN declined to comment.

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

11/07/2023

CONGRESSIONAL LEADERS DEFEND GOVERNMENT'S ZERO-DEFICIT TARGET
Lower House Speaker Arthur Lira said Finance Minister Fernando Haddad should continue to look for alternatives to achieve goal

The leader of the government in Congress, Senator Randolfe Rodrigues, said on Monday that the Presidential Palace will not send a message of amendment to the Parliament to change the zero fiscal deficit target for 2024 in the Budgetary Guidelines Law (LDO). According to Mr. Rodrigues, "there is no room at the moment to discuss whether or not to change the target."

The deadline for the government to make this move is before the reading of the preliminary report by the rapporteur, Congressman Danilo Forte, scheduled for this Tuesday. After that, a change in the fiscal target can only be made on the initiative of legislators during the budget consideration in Congress. The senator's comment indicates that this will be the government's strategy.

"It won't change, there is no amending message for tomorrow [Tuesday]. The report that will be read has been discussed with the government," the senator said after a meeting of Senate leaders with President Lula.

The statement came hours after the leaders of both houses of the legislature defended maintaining the zero target for 2024. Chamber of Deputies Speaker Arthur Lira and Senate President Rodrigo Pacheco agreed that Finance Minister Fernando Haddad and the economic team should pursue the goal.

Speaking at a BTG Pactual event, Mr. Lira said that Mr. Haddad should continue to look for alternatives to achieve a zero deficit, pointing out that it would be difficult for any initiative to change the fiscal target to come from the legislature. He pointed out that, in conversations with members of the government, he had not received any indication that the target would be changed or eased.

"When Lula declared the fiscal target, we understood that if the target is met, there is a certain consequence on the [fiscal] framework. If the target is not met, there is another consequence on the framework. Haddad confirmed in a meeting with us and publicly that he will continue to pursue a zero deficit. He has to keep looking for alternatives to get to zero deficit. Our focus is to keep working towards that. If we don't achieve it, it's not because we don't want to, it's because we haven't succeeded, and if we haven't succeeded, there will be consequences triggered on the framework," he said.

At the same event, Mr. Pacheco said that the goal of the economic team must be continuously pursued. The senator said that Mr. Haddad deserves confidence and that the minister has done a good job. "If this goal can't be achieved in the future, that's another issue, but we can't stop focusing on the fight against the public deficit and Brazil's growth and the growth of sustainable income."

The statements came just over a week after Mr. Lula admitted over coffee with journalists that it would be "difficult" for the government to meet the target of balancing the public accounts.

In the aftermath of his speech, the rift within the government became more apparent. While one wing is aligned with the head of the economic team in defending the zero deficit, another group has begun to defend a change in the target.

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

11/07/2023

FUEL IMPORTS RISE MOST IN A DECADE

Country's purchases increased by 215.7% to $44bn between 2020 and 2022, a study by Rio de Janeiro's Federation of Industries shows

Brazil, and Rio de Janeiro in particular, have seen an increase in the value of fuel and lubricant imports in the past few years. This has happened despite the increase in international prices. A study by the Federation of Industries of the State of Rio de Janeiro (Firjan) showed that Brazilian imports of fuels and lubricants increased by 215.7% between 2020 and 2022, to $44 billion—out of a total of $272 billion in imports reported last year. This was the largest increase in this segment since 2010.

The increase in foreign purchases of this type of product to Rio de Janeiro alone was 307.4%: a total of $8.9 billion, more than a third of what the state imported in 2022 ($25.4 billion). It was also the most intense increase originating from Rio detected by Firjan in a biennial study that began in 2010.

The latest edition covers a universe of 262 companies, with data for 2022, compared to 2020, the base year for the previous edition of the same survey.

Among the eight major sectors analyzed for Firjan's survey, fuels and lubricants was the one that showed the largest increase in imports in dollars, and the only one that reported a triple-digit increase, both in the data cutoff for national coverage and for Rio de Janeiro alone.

The survey showed the importance of the oil and gas sector in the trade balances of Brazil and Rio de Janeiro, said Firjan's first vice president, Luiz Césio Caetano. "About 75% of Rio's foreign trade flows come from oil and gas," Mr. Caetano said. At the national level, 12% of the country's foreign trade flows come from the oil and gas sector, added Firjan International Coordinator, Giorgio Luigi Rossi.

When asked about the reasons for the leap in the value of imports in the region, Mr. Caetano recalled that this growth happened despite the continuous increase in oil prices in recent years. The rise in the price of a barrel of oil also makes the price of products more expensive, which in theory should reduce imports.

The fact is that fuel consumption in Brazil is growing faster than refining capacity. In other words, the country needs to import a certain amount to meet demand, regardless of the price of a barrel. With a more expensive barrel, the cost in dollars goes up.

In 2022, according to the Brazilian Statistical Yearbook of Petroleum, Natural Gas and Biofuels 2023, published by the National Petroleum Agency (ANP), Brazil had a refining capacity of 2.3 million barrels/day and an increase of only 0.04% compared to 2021.

In October 2023, the Energy Research Company (EPE) published a study showing that the total demand for fuels (total diesel oil, C gasoline, hydrated ethanol, QAV, and LPG) in the domestic market in 2022 was 144.7 billion liters, an increase of 4.3% compared to 2021.

Another aspect raised by Firjan is the total and origin of Brazilian crude oil imports to Rio. In 2022, there was a 231.3% increase in foreign purchases of this item by the state, compared to 2020, to $3.385 billion. The biggest supplier was Saudi Arabia, with $3.202 billion, an increase of 247.7% in 2022 compared to 2020.

Mr. Caetano stressed that this increase in the oil and gas sector's share of Rio's foreign trade flows was not intentional. "It's [a response to] demand," he said. "Industries are looking for business opportunities."

Another aspect stressed by Mr. Caetano is that this increase in demand for oil and oil products is not exclusive to Brazil or Rio de Janeiro. The local situation is the result of a global boom in the sector.

Firjan also identified the main difficulties for companies in foreign trade. In the case of imports, tax costs were the most frequently cited obstacle, followed by customs bureaucracy and international freight costs. For exports, tax bureaucracy, international freight costs, and customs bureaucracy were mentioned as obstacles.

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

11/08/2023

SENATE COMMITTEE APPROVES TAX REFORM TEXT, INCORPORATES NEW EXCEPTIONS

The Speaker of the Lower House has suggested a phased implementation of the reform, advocating for parts that have reached consensus to be integrated into the Constitution within the current year

The Senate's Constitution and Justice Committee approved the proposed amendment for tax reform with a 20 to 6 vote this Tuesday (7). The report penned by Senator Eduardo Braga, which includes new exceptions, is slated for a vote in the Upper House session on Wednesday (8). Mr. Braga yielded to parliamentary pressure as the committee process nears completion, accepting approximately 50 amendments to advance the issue this week, encompassing new special regimes with lowered rates. He had already accepted another 205 suggestions in October.

The rapporteur introduced multiple revisions to the text previously approved by the Chamber of Deputies (Lower House), necessitating its return to the representatives for further review. Lower House Speaker Arthur Lira advocated for Congress to enact only the consensus points between the two chambers this year. Consequently, modifications endorsed by the senators may be addressed separately in a subsequent proposed constitutional amendment to be examined at a later date.

"From my perspective, the tax matter has been settled in the Lower House," Mr. Lira told reporters, noting that he had discussed this approach with Senate President Rodrigo Pacheco.

The reform consolidates ISS (a municipal tax levied on the provision of services by businesses and independent workers), ICMS (a state tax on the circulation of goods, interstate and intercity transportation, and communication services), PIS (a federal contribution that funds the unemployment insurance program and the participation of employees in the revenues of companies), Cofins (a federal tax that finances social security, including public healthcare, pensions, and welfare), and IPI (a federal tax on manufactured products, which is levied when a product leaves the factory and at the point of customs when imported) into three new taxes: the federally administered Contribution on Goods and Services (CBS); the Tax on Goods and Services (IBS), overseen by the Federative Council comprising representatives from states and municipalities; and a federal Selective Tax (IS) imposed on goods and services deemed detrimental to health.

On the eve of the vote, Mr. Braga expanded exceptions for some segments. The changes benefit banks, taxi drivers, soccer clubs, and the automotive industry.

The changes also respond to requests from the governors of the Central-West and Northeast regions, in addition to agribusiness. According to Mr. Braga, everything was agreed directly with the Planalto Palace, the economic team, and the members of the Senate Committee.

The strategy proved effective. Beyond the significant outcome in the committee, lawmakers from opposition parties, including the Liberal Party, are considering allowing their members to vote freely in the plenary session.

On Tuesday, Mr. Braga accepted a proposal from Carlos Portinho, the Liberal Party's Senate leader, to preserve the unified tax collection for Soccer Limited Companies (Sociedade Anônima do Futebol, SAF).

The rapporteur also chose to maintain the current exemption for the purchase of vehicles by individuals with disabilities or on the autism spectrum and for taxi drivers. This decision responded to a request from Senator Mara Gabrilli.

He further embraced a suggestion to apply a zero tax rate for medicines purchased by the government and non-profit social assistance entities.

The previous draft had already provided for a reduced rate of 60% for agricultural products, medicines, essential menstrual health care products, and public transportation services. Additionally, independent professionals were granted a 30% reduction in charges.

Mr. Braga, following a request from the Worker's Party leader Fabiano Contarato, included in his report that financial intermediation services, such as banks, would have a specific taxation regime. This is to maintain, until the sixth year after the new regime comes into effect, the tax burden as of the date of the proposed amendment to the constitution enactment. A specific regime will also be established for the Workers' Severance Fund (FGTS).

Another amended point retains the option for the states of Mato Grosso, Mato Grosso do Sul, Goiás, and Pará to levy taxes on primary and semi-manufactured products, extending the measure until 2043. Previously, the tax would have ceased along with ICMS in 2032.

According to allies of Mr. Braga, the adjustment resulted from pressure from lawmakers and governors from the Central-West region, who were among the most resistant groups. Furthermore, the new text is also seen as a victory for the agribusiness sector.

In another win for agriculture, Mr. Braga extended tax benefits granted to the automotive sector to produce alcohol-fueled vehicles, either alone or in combination with gasoline. This was a request from soy producers. It was also a request from governors and lawmakers from the Northeast and the Central-West to incentivize regional manufacturers. Initially, Mr. Braga's text provided the benefit only for electric vehicles.

The mandatory cashback provision for low-income families was expanded to the purchase of gas tanks. Cashback is a system in which part of the money paid is returned. In the first version of the report, there was only compulsory reimbursement of taxes on electricity bills.

An adjustment has been made to incentivize states and municipalities with rewards for revenue increases during the 50-year transition to the new tax system. The reward will be a bigger slice of the IBS pie.

The goal is to encourage states to monitor compliance with the new rule and avoid the "free rider effect."

An analysis by the economic team of the initial version of Mr. Braga's opinion estimates that the standard value-added tax (IVA) rate will be up to 27.5%. The calculation has not yet been updated after the changes.

Facing inquiries from opposition leader Rogério Marinho regarding determining the new IVA base rate, Mr. Braga asserted that the exceptions have been meticulously calculated, with compensations designed to minimize the final impact. He assured that he would seek a study from the Ministry of Finance following the issue's approval in the plenary session.

Bernard Appy, the Secretary of Tax Reform at the Ministry of Finance, hailed the outcome. He emphasized that while the ministry favored a version with fewer exceptions, the outcome is "very positive" in light of the cost-benefit analysis of the matter.

"From a technical standpoint, comparing an ideal text to what emerged with the exceptions, it aligns with what has been discussed: it's 70% of the ideal. From a political point of view, the score is above nine," the secretary told Valor.

Mr. Appy pointed out that there was a process of political negotiation in the Senate, spearheaded by Finance Minister Fernando Haddad, to surmount resistance in the Upper House.

Hours before the vote, Mr. Haddad stated at an event that everyone must call a senator and appeal for the proposal's approval.

Mr. Appy expressed optimism regarding the outcome in the Senate plenary. Still, he noted that the effort requires daily attention and work. He refrained from commenting on the proceedings in the Lower House, indicating that he did not wish to speculate on that scenario.

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

11/09/2023

CHIEF OF STAFF OFFICE CONSIDERS SETTING FISCAL TARGET AT 0.5% OF GDP

The idea is to contain signals from legislators who want to set the deficit as high as 1%

The Chief of Staff Office—the main proponent of the revision of the fiscal target—is working on a "ceiling" of a maximum deficit of 0.5% of GDP for 2024. Sources in the office say that the idea is for the government to present an amendment to the Joint Budget Committee (CMO) by November 16 that does not exceed this figure. The percentage is relevant because since the government agreed to change the zero-deficit target, lawmakers have begun to raise possible alternatives, including 1% of GDP, an idea rejected by the Chief of Staff Office.

As Valor has shown, one of the lawmakers who intend to present such a proposal is Lindbergh Farias. The Workers' Party lawmaker's strategy is to file two amendments to the Law on Budgetary Guidelines (LDO): one to change the target to a primary deficit of 0.75% of the GDP and the other to 1%.

The Ministry of Finance is against it. Despite this movement, the economic team continues to defend the proposal to reach zero deficit next year.

In the presidential palace, the movement to revise the fiscal target is mainly led by Chief of Staff Rui Costa. He tells people close to him that the deficit should be between 0.25% and 0.5% of GDP, which is the "ceiling."

Amid this scenario, President Lula admitted on Wednesday that the federal government, the states, and the municipalities are facing a "revenue crisis."

Nevertheless, he promised that mayors and governors will not run out of funds during his term.

"We've sent a bill [to Congress] in this revenue crisis that we have. We're not going to allow any mayor to have less [funding] than they had in 2022. We're also going to restore [revenues] so that governors can govern," he said during an event at the palace.

On the other hand, the president sent a message to deputies and senators, asking them not to "throw money away" with congressional earmarks directed at works that are not strategic for the country. According to the president, it is "important" that his government "discusses more" with lawmakers so that these funds are concentrated on "important projects."

"It's important to discuss [changes] with the lawmakers. We can't throw money away. We have to concentrate our efforts on big projects," the president told an audience made up mostly of deputies and senators.

The message comes against the backdrop of the Lula administration's strategy of trying to supplement funds for works with the same non-budget earmarks.

President Lula spoke on the matter at the signing of the service contract for the doubling of the BR-423 highway, a 43.1-kilometer stretch between the cities of São Caetano and Lajedo in the state of Pernambuco. The highway connects the states of Pernambuco, Alagoas, and Bahia. The entire project is included in the New PAC (Growth Acceleration Program) and has an expected public investment of R$554 million.

The president said that his government intends to invest again in the so-called Transnordestina, the Brazilian railroad originally designed to connect the port of Pecém, in Ceará, with the state of Piauí. On this subject, President Lula added that he did not intend to favor one state over another, but said that the Northeast region needed more attention.

"I don't want to take anything away from any region. I just want to restore what should never have been taken away from the Northeast, which is the right to decency. We're going to take back the Transnordestina, which has a very symbolic value for me," he said.

"We will take it [the Transnordestina] to Pecém, to Suape," he added. According to Mr. Lula, another of the Workers' Party's historic flagships that should be prioritized again is the interbasin transfer of the São Francisco River, which is part of the so-called New PAC. "The transfer was something that Dom Pedro II [Emperor of Brazil, 1825-1891] himself wanted to do. And a lot of people were against [the idea]," he added.

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

11/16/2023

AUDITING FIRM CITES MATERIAL UNCERTAINTY ABOUT AMERICANAS'S OPERATIONS
BDO RCS also declined to express an opinion on the financial statements, indicating that it was unable to confirm information

BDO RCS—the firm hired to conduct Americanas's external audit—has refused to issue an opinion on the retailer's 2022 financial statements. The refusal to issue an opinion is serious, as it shows that the auditors were unable to access or confirm information to assess the figures.

"We were unable to obtain sufficient appropriate audit evidence to provide a basis for our opinion on these financial statements," BDO said in the report accompanying the results.

Despite the auditors' disagreement, the company's internal audit committee approved the financial statements, which are to be evaluated by investors at a general meeting. According to the committee, the document "meets the possible conditions for consideration by the general meeting of shareholders."

The external auditors said that "in the context of material uncertainty regarding operational continuity" it was not possible to determine whether there would have been a need to make adjustments concerning the balances of non-financial assets in December 2022 and 2021.

BDO also states that it was not possible to confirm the data on "inventories" and "cost of goods sold" because it was hired after 2022 and cannot monitor the physical count. Subsequently, the auditors were unable to complete the count "by alternative means."

Throughout the text, the auditors mention what issues were evaluated and what information was not verified or could not be accessed. Regarding the court-supervised reorganization plan, they said that it has not yet been approved by the creditors.

Regarding the independent investigation, they said that it is still ongoing, "so documents and information are still being verified, including their integrity and sufficiency." "To date, we have not received any reports or had access to any conclusions from this independent investigation."

In addition to the internal investigation, several administrative cases are underway at Brazil's securities market authority (CVM), as well as investigations by the Federal Prosecution Service, the Federal Police, and Exchange B3.

Due to the secrecy of these investigations, the auditors state that they have not had access to their contents and, therefore, cannot assure the existence or non-existence of effects that could affect the financial statements.

The auditors also said that they have not received responses from the financial institutions related to some of Americanas's subsidiaries. Regarding AME Digital, Americanas's digital wallet, the audit procedures have not yet been completed.

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

11/16/2023

SÃO PAULO GOVERNMENT PLANS TO PASS SABESP PRIVATIZATION BY DECEMBER

Despite opposition maneuvers, lawmakers may pass bill to privatize the São Paulo water utility early next month

Despite procedural maneuvers performed by the opposition, the governing coalition of São Paulo Governor Tarcísio de Freitas in the state's Legislative Assembly is working to pass the bill authorizing the privatization of water utility Sabesp in early December.

After the failure in the attempts to litigate, the lawmakers of five left-to-center parties have resorted to the strategy of buying time, that is, to cling to the points foreseen by the standing rules of the house to extend the debate as much as possible.

On the side of the São Paulo government, which has the support of the majority of legislators to pass the privatization, the urgency of the bill counts in its favor, which forces an analysis of the text within 45 days—the bill began to be considered on October 18.

“The government has full control over the dynamics in the Assembly. We in the opposition are using all the parliamentary and legal arsenal available to try to gain time and prevent the approval of something so important from being swept under the carpet,” said lawmaker Guilherme Cortez, deputy leader of the opposition, which includes 26 of the 94 state legislators. At least 48 votes are needed to pass a bill.

The Legislative Assembly will hold the first and only public hearing this Thursday—postponed once by the opposition—to discuss the sale of the state sanitation company to the private sector, one of the governor's priorities and a campaign promise last year. The state's secretary of environment, infrastructure, and logistics Natália Resende will be heard.

“Today's hearings are not what they used to be,” replied lawmaker Barros Munhoz, rapporteur for the privatization bill, to the opposition's criticism that one hearing was too little for such an important issue.

With the resumption of the discussion of the bill in the so-called “Congress of Committees” this week, the attitude of the Workers' Party legislators—who began to read a report of more than a thousand pages against the privatization—was strongly criticized by the government, but the practice, provided for in the rules of procedure, continued and was only closed on Tuesday, after three sessions.

The analysis of bills in the “Congress of Committees” is a common practice in the São Paulo legislature. This is a meeting of members of different committees (each of which has 11 full members and 11 substitutes) to speed up the process. In the case of the Sabesp privatization, it brought together members of three committees: Constitutional, Legal and Editorial, and Finance and Infrastructure. The opposition wanted the bill to be dealt with separately in each committee. Besides, it wanted the bill to be considered in other related committees, such as the Environment and Public Administration, but was unsuccessful.

The parties from the governing coalition, despite their public complaints, admit that the opposition's “trick” was expected. Once the 45-day urgency period for the bill has expired, and even without approval in the Congress of Committees, the president of the Legislative Assembly, André do Prado, has the prerogative to call for a vote directly in the plenary. There, however, the opposition can, according to the rules, submit an amendment that would send the case back to the same Congress of Committees for analysis.

The rapporteur, however, said that there is a negotiation underway that even seeks to involve the opposition to try to bring forward the analysis of the bill, since the minority bloc does not have enough votes to defeat the governor. He intends to start analyzing the more than 100 amendments that have already been submitted to the bill next week.

Lawmaker Jorge Wilson, the government's leader in the Chamber of Deputies, said he is not worried about the bill's progress or the attempts to block it and is working toward its approval by December. “It's only 48 votes, we have that many,” he said.

His fellow legislator Gilmaci Santos, who chairs the Finance and Planning Committee, estimates between “50 and 55 votes,” with possible approval by the first week of December—including any setbacks caused by the opposition.

To counter the minority bloc, government supporters launched a parliamentary group in defense of privatization on Tuesday. Among the participants are lawmakers that report to the former president Jair Bolsonaro, all supporters of the bill sent by the state government. “There is a consensus among allied legislators about the benefits of privatizing Sabesp,” said legislator Lucas Bove.

Last week, lawyer Fabio Wajngarten, an advisor to Mr. Bolsonaro, criticized the privatization of Sabesp on social media, linking it to the electricity system because of a massive power outage in São Paulo. Mr. Bove, however, points out that Mr. Wajngarten does not speak on behalf of the former president and that his comment did not cause any dispersion of votes among allies on the right.

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

11/17/2023

NEW PLAN COULD RENEW INDUSTRIAL PARK BY 10%, BRAZIL’S VP SAYS
Tax incentive under discussion by the government involves tax deduction for investments in machinery and equipment

The super-accelerated depreciation model under development by the federal government could renew the Brazilian industrial park by up to 10%, according to Brazil’s Vice President Geraldo Alckmin.

Mr. Alckmin, who is also minister of Development, Industry, Commerce, and Services, said the government is “working around the clock to” roll-out the new model, but did not disclose information about the timing for that.

“This [new model] could mean 8%, 9%, 10% in regard to helping renew the industrial park,” he said after the launch of the new phase of the “Brasil Mais Produtivo” program, at the National Industry Confederation (CNI) headquarters, in Brasília. “Brazilian industrial park is outdated. If you fail to improve efficiency, how will you be able to compete?”

Accelerated depreciation is a tax incentive that allows companies to deduct from their Business Income Tax (IRPJ) and Social Contribution over Net Profit (CSLL), in a period ranging from two to 25 years, capital expenditures in machinery and equipment. The initiative impacts the stream of company and federal government accounts, with no changes in the volume of taxes to be collected, as the amount is recouped by the federal government at some point.

However, the ministries of Industry and Finance wish to go a step further by implementing a super-accelerated depreciation, in which the deduction involves a shorter period of time, of only one or two years.

As Valor reported in August, the government was working with five different scenarios for the super-accelerated depreciation. Each of them reached a greater or lesser number of industrial segments. The fiscal impact ranged from R$3 billion to R$17 billion, and the period when the incentive would be granted remained undecided, one or two years. At that time, the government’s expectation was that the decision would be made in September, which did not happen. At Thursday’s event, Mr. Alckmin said Finance Minister Fernando Haddad has been a “good partner” during the project preparation.

According to Brazil’s Federal Revenue, from January to October this year, exemptions relating to accelerated depreciation of capital assets totaled R$1.683 billion, R$73 million above the number for the same period in 2022.

The new stage of “Brasil Mais Produtivo,” launched Thursday by the federal government, aims to spur a “technology leap for micro, small and medium-sized Brazilian industrial companies,” as the Ministry of Industry informs. According to the ministry, the new stage of the “program will allocate R$2 billion for the digital engagement of 200,000 industries.” The program will conduct, for example, a “diagnosis and management improvement,” with focus on providing 50,000 companies with “guidance and continuous monitoring” aimed at increasing productivity.

Source: Valor International

https://valorinternational.globo.com/

11/17/2023

ARGENTINA'S FINANCIAL CRISIS AFFECTS BRAZILIAN EXPORTS
Election race worsens dollar shortage and reduces purchases of manufactured goods from Brazil

The exchange rate instability resulting from the presidential race in Argentina has accentuated the loss of space for manufactured products in Brazilian exports to the neighboring country. Goods from the manufacturing industry still predominate in sales to Brazil's largest trading partner in South America, but Brazilian industrial companies point to greater difficulties this year, given more bureaucratic obstacles to shipments and greater difficulty for Argentine companies to access foreign currency.

From January to October this year, manufactured goods accounted for 91.1% of exports to Argentina, a share 1.6 percentage points lower than in 2022. In 2019, less than five years ago, the share was 95.7%, always considering the same 10 months, according to the Foreign Trade Secretariat. The comparisons disregard soybean shipments, which behaved atypically in 2023 and led Brazilian exports to the neighboring country this year.

The country's largest regional partner, with 5.3% of Brazilian exports and third place in the ranking of all Brazil's destinations, Argentina is due to choose its next president this Sunday and the expectation for the outcome of the polls is shared by Brazilians, according to experts.

Argentina is going through a crisis and has low foreign exchange reserves, which has led the country to adopt a more protectionist stance, with various taxes and embargoes on foreign products, said Welber Barral, a partner at BMJ and former secretary of Foreign Trade. "In addition to exchange controls, Argentina's problem is its narrow import licenses, which also affect its exports because of high import taxes."

Igor Fink, economist and market intelligence analyst at Abicalçados, the Brazilian association of footwear industry, says that since the end of last year, footwear, which historically had an import license that was automatically released to enter the Argentine market, has been included in the list of products with a non-automatic license. This means that the product waits for approval to enter Argentina for up to 60 days.

This, explains Mr. Fink, is the maximum deadline set by the World Trade Organization (WTO). But Brazilian footwear faces a much longer wait. In the latest survey of the sector, at the beginning of October there were 584,000 pairs of shoes awaiting clearance to enter Argentina. The delay, says the economist, jeopardizes the sale of the product, since the shoes often arrive in shop windows out of season.

Once the license to land in Argentine territory has been released, said Mr. Fink, the challenges continue, because there is a 180-day deadline for the Argentine importer to access the foreign exchange market, which comes up against the challenge of being able to buy dollars. According to Mr. Fink, reports of default among Brazilian suppliers have increased.

In this scenario, some Brazilian industries have given up selling shoes to the Argentinians, leaving only the larger companies with long-standing commercial partnerships and greater financial strength. This, along with competition with footwear from China and Southeast Asian countries, has caused Brazil's share of Argentine footwear imports to fall to 39% today from 49% in May this year. Mr. Fink estimates that, by the end of the year, the share will have fallen to 31%.

Edgard Dutra, head of Metalplan, a capital goods manufacturer, says that the company has a partnership with an Argentinian equipment distributor that also supplies machines to the health sector. This has probably favored shipments of air compressors manufactured by the company in recent years, he says. The same Argentine distributor also has export operations, which is expected to facilitate access to dollars.

Even so, Mr. Dutra says that this year he faced greater difficulty in exporting to the neighboring country. "The Argentinian partner's order was placed in May and we managed to finish production at the beginning of July. Then an imbroglio began and from August until almost the end of October we were unable to ship the machines to Argentina," he recalls. He says there were several difficulties, such as the bureaucratic ones, which required many meetings between custom brokers on both sides to validate the necessary documentation.

“And when the documentation was finally submitted to Argentine customs, it happened something I had never seen in almost 25 years of exporting. They asked to remove items because the value was above what could be released,” he said. “We had to remove around 10% of the total number of machines, which will await a new batch of shipments.”

Despite the difficulties, Mr. Dutra says that the Argentine market remains important for the company, accounting for 30% of exports. The company is trying to intensify exports to Chile and Peru and plans to resume sales to Colombia.

“In the current situation, what Argentina imports depends on what the government wants to import. As much as the importer and exporter are interested in doing business, the lack of dollars prevents it,” said José Augusto de Castro, president of the Brazilian Foreign Trade Association (AEB). “Brazilian exporters are waiting for the outcome of the elections to get an idea of the politics that will follow. There is also the expectation that next year’s Argentine corn and soybean harvest will not suffer the crop fail that happened this year, which will provide Argentina with foreign currency to import.”

With an atypical sales performance, soy tops the list of products exported by Brazil to Argentina this year in an unprecedented way. Data from the Ministry of Development, Industry and Foreign Trade shows that soybean shipments rose to $1.98 billion this year, considering January to October, from $120 million in 2022. The atypical exports are due to economic factors in Argentina. The country faced a drought, and a crop failure forced Argentina to import soybeans in order to honor export commitments that had already been signed.

For Mr. Castro, if it hadn’t been for the intensification of the financial crisis resulting from the Argentine election race, Brazilian exports could have grown by up to 40% compared to 2022. Government figures show that Brazil exported a total of $14.9 billion to Argentina from January to October, up 13.1% compared to the same period last year.

Even after an intense presidential race, Brazil-Argentina trade relations are unlikely to undergo significant changes in 2024, said Mr. Barral. In an election marked by polarization, he said the candidates will not be able to make major changes to the country’s trade policy.

For him, if the current government’s candidate Sergio Massa wins, relations with Brazil will remain “fluid and friendly.” However, if far-right candidate Javier Milei wins, the major changes promised during the campaign will be met with a lot of resistance due to his weak base in Congress, said Mr. Barral. The Liberty Advances party won only 18 seats in Parliament.

For Mr. Barral, Argentina’s further reopening to imports is expected to happen slowly and will depend a lot on the performance of the economy. “We need to make a transition towards more open trade, but we need more forex reserves. The difference between the two candidates will be the speed of economic opening.”

Diplomatic relations between the two countries could change as a result of the election. For Mr. Barral, if Mr. Milei wins, relations between the two neighboring countries will tend to be colder, “as they were, at the time, when [Argentina’s] Alberto Fernández and [Brazil’s] Jair Bolsonaro were the presidents.”

“Sunk in successive crises for more than 20 years, Argentina has the possibility of reversing this situation by taking advantage of opportunities and filling the gaps in its production,” said Mr. Barral. For him, the country’s biggest challenge is to achieve economic stability, which he says can be solved with adjustments. “There is the need to cut a series of subsidies that exist and which are very costly for the government. There is also too much state intervention in various aspects of the Argentine economy, which ends up generating a lot of inefficiency.”

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

11/20/2023

LONG-TERM DEFAULT PEAKS SINCE PANDEMIC ONSET
Almost half of those indebted have been in default for 90 days, according to a CNC Survey

In October, the rate of long-term default in Brazil reached its highest point since the onset of the pandemic in March 2020. According to the Consumer Debt and Default Survey (PEIC), released exclusively to Valor by the National Confederation of Trade in Goods, Services, and Tourism (CNC), 48.5% of those indebted have been in default for over 90 days.

The study also revealed that the average duration for clearing overdue debts peaked at 64.2 days, the longest since November 2019's 64.4 days. Notably, 13% of defaulters are currently unable to clear their debts, marking the highest rate since the survey's commencement in 2010, which polled around 18,000 consumers nationwide.

Experts interviewed by Valor suggest that the federal government's debt renegotiation program, Desenrola Brasil, might alleviate the situation for average defaulters. However, they assert that the issue for long-term defaulters is more intricate, requiring improved financial literacy and tighter control on credit lines.

They point to persistently high market interest rates and constrained budgets as key factors exacerbating the debt situation. And they caution, underscoring the complexity: resolving this issue is not a task that can be swiftly accomplished in the near term.

"Many were heavily indebted in the post-pandemic period," said Izis Ferreira, CNC economist and PEIC Survey lead. The crisis caused by the economic impact of COVID-19, which began in 2020, resulted in a continuous loss of income in the following years, she recalls. And subsequent inflation, which peaked at 12.13% in April 2022, was at its highest for that month since 1996. Rising prices have left less and less room in the budget to pay off debt over the past year. "And the labor market still hasn't recouped income," adds Ms. Ferreira.

In an evolving financial landscape, Brazilians have increasingly relied on credit to meet their financial obligations, explains Ms. Ferreira, leading to a "snowball effect" of accruing debts. This trend has been exacerbated by rising interest rates. From August 2022 to June 2023, Brazil's key interest rate, Selic, remained at a high of 13.75% per annum, the peak since 2017.

"Default is significantly impacted by interest rates," adds Nicolas Borsoi, chief economist at Nova Futura Investimentos. Despite the Central Bank's efforts to reduce the Selic rate recently, Mr. Borsoi notes that these cuts have yet to make a substantial impact on the real economy. The country's real interest rate—Selic after discounting projected 12-month inflation—is hovering around 6% annually, said Mr. Borsoi.

Mr. Borsoi points out that, despite the implementation of Desenrola Brasil, there has been an increase in the number of families struggling to service their loans, according to the PEIC Survey.

Adding to this concern, Luciano Costa, chief economist at Monte Bravo Investimentos, criticizes banks for offering high-limit credit cards to customers with limited repayment capacities, a practice that has aggravated the default crisis. Mr. Costa observes a deterioration in credit portfolios and an uptick in defaults, although banks have since scaled back on riskier credit offerings.

Thiago Basílio, deputy coordinator at the consumer defense center (Nudecon) of the Rio de Janeiro State Public Defender's Office, warns that many are still grappling with debts incurred from these high-risk credit lines post-pandemic.

He highlights the perils of credit card debt as "a cascading effect of long-term default," particularly the option of making only minimum payments at high interest rates, which he identifies as a precursor to default.

Lauro Gonzalez, coordinator of the Center for Studies in Microfinance and Financial Inclusion at FGV EAESP, points out that the issue is not solely due to high interest rates. He identifies a trio of factors contributing to the prolonged default situation.

Firstly, the challenging macroeconomic environment; for an extended period, the job market's lackluster response, set against a backdrop of persistent high inflation, has significantly constricted the room in household budgets for any form of spending, including the ability to pay off debts. Secondly, experts echo a similar concern: the previous offering of credit, ripe with the risk of high default rates. The third factor is the absence of more comprehensive financial education.

“People began to rely on credit as a means to fill gaps in their income, to balance their day-to-day budgets,” explains Mr. Gonzalez.

He advocates for a comprehensive solution, which includes greater ethical standards in financial service offerings and an improved macroeconomic environment with economic growth and increased job opportunities.

Further emphasizing the importance of financial literacy, Rodolfo Margato, an economist at XP, notes “a significant increase in families’ monthly income commitment to debt service, as reported by the Central Bank. Before the pandemic, this figure stood at 22%, but has recently escalated to 30%.” In the October PEIC Survey, this rate was at 30.3%, the highest since November 2022’s 30.4%.

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

11/20/2023

FALLING PRICES WEIGH ON AGRIBUSINESS RESULTS
Sales fell 5.5% in the July-September quarter, limiting margin growth

The last earnings season was marked by ups and downs among agribusiness companies, but one point stood out: the revenue of the majority decreased compared to the same period last year. Analysts told Valor that falling prices of various commodities has affected the sector’s results, and they showed uncertainty about what lies ahead.

A survey by Valor Data, based on the balance sheets of 25 companies, shows that the total revenue generated in the quarter amounted to R$187.5 billion, down 5.5% from the same period last year. The period evaluated refers to the third quarter of the year, except for the mills, which consider July to September as the second quarter of the sugarcane harvest.

Of the 25 companies, 19 showed a decline in sales. AgroGalaxy posted the largest decline, of 22.9%, while Marfrig reported the smallest one, down 0.8%.

At the other end of the spectrum, among the six companies that increased their sales during the period, productivity gains and an increase in grain sales volume were key in offsetting the decline in prices. Agribrasil, 3Tentos, and SLC Agrícola benefited from this, with revenues up 27.4%, 22.7%, and 21.8% respectively.

“Companies were affected by the commodity price cycle. Most [prices] were at a lower level,” said Gustavo Cruz, chief strategist at RB Investimentos.

In the case of beef, Itaú BBA analyst Gustavo Troyano recalled that production costs were very high in 2022, with the arroba (a metric unit equal to 15 kilos) at around R$330. “And with a more expensive arroba, you have to define a higher price,” he said.

Now, Mr. Troyano believes that the value of the tonne exported is unlikely to return to last year’s level, since the cost of cattle is also lower, due to the livestock cycle of greater supply. In addition, the value of meat exported to China has declined. Whether the Chinese will be able to make progress on the amount paid “is the million-dollar question,” he added.

The analyst pointed out, however, that meatpackers may be able to achieve better margins given the reduction in expenses, whether on the arroba of beef in Brazil or the grains used in poultry and pork feed.

At AgroGalaxy, a combination of factors affected the retailer’s sales. In addition to a 44% drop in input prices, performance was impacted by commodity volatility and extreme weather that forced growers to change their planting calendar.

This change in the soybean planting season has already led Safras & Mercado to lower productivity estimates in the North and Central-West regions due to lack of rain and in the South due to excessive rainfall. Despite this, the consultancy's analyst, Luiz Fernando Roque, said it was too early to say that soybean production would be lower than last year's crop.

But the delay in planting soybeans takes growers out of the ideal window for planting the second corn crop in early 2024, another factor that could affect the results of input and grain companies next year.

"Seed purchases for the second corn crop are 33% behind the average of the last three years," said Agrinvest market intelligence analyst Jeferson Souza.

He noted that SLC, for example, had previously announced a reduction in its 2023/24 corn acreage due to the grain's lower profitability. Now, SLC and other grain companies also face the risk of lower crop yields due to adverse weather conditions.

Meanwhile, mill revenues have been pressured by the decline in the value of ethanol, although high sugar prices have limited losses. Looking ahead, BTG Pactual said in a report that São Martinho, for example, could see "higher sugar and possibly ethanol prices [which] should gradually feed through to the [next] result." According to the bank, the company should sell most of the production accumulated in the harvest, at a time when domestic ethanol consumption is responding.

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

11/20/2023

BRAZIL'S CLIMATE VULNERABILITIES "ARE IMMENSE," SAYS IPCC EXPERT
Paulo Artaxo says country needs to adapt to "new climate" and rethink its economic, energy, and social system

Brazil has to adapt to the new climate. Translated into concrete fronts, the country has to rethink how to structure the future of the economy based on commodities produced in the Central-West region and of electricity, with 50% based on hydroelectricity. It has to think about how to house Brazil's probable climate refugees, who today live in the Semiarid of the Northeast region and in the São Francisco River region.

"Our vulnerabilities in the climate crisis are immense," says physicist Paulo Artaxo, author of the climate science chapters of the UN Intergovernmental Panel on Climate Change, the IPCC, and of all the sentences above.

"Brazil, being a tropical country, is one of the countries that will lose the most with climate change," said Mr. Artaxo. "Compare Brazil with Sweden. Look at Teresina, Cuiabá, or Palmas, which in summer already have temperatures of 41°C. When the temperature in these regions rises by 3°C or 4°C, we're going to see summers of 47°C or 48°C, with huge impacts on health and ecosystems," he said.

Mr. Artaxo, like the main Brazilian and foreign climatologists, is raising the alarm to society and governments. At the beginning of November, the World Meteorological Organization (WMO) announced that 2023 will be the hottest year on record. On Wednesday it released a study indicating that global average CO_2 concentrations were 50% above the pre-industrial era for the first time in 2022. Methane concentrations increased by 264%, and levels of nitrous oxide, the third main gas contributing to the climate crisis, also rose.

The secretary-general of the WMO, Petteri Taalas, said that the record levels of greenhouse gases will lead to a further rise in temperature.

The WMO report warns that the world is heading for a rise in temperatures well above the Paris Agreement targets and that the scenario will be marked by "increasingly extreme weather conditions, including intense heat and rainfall, melting ice, rising sea levels, and ocean acidification." The agency warns that socio-economic and environmental costs will rise and calls for an urgent reduction in fossil fuel consumption.

Mr. Artaxo nationalizes the dystopia. "What was considered scientific speculation has now become reality. It is enough to look at the thermometer to realize the climate has changed."

The scientist explains what is happening in the Amazon as an effect of deforestation, fires, and El Niño. "In the region, in addition to the high temperature, there is high relative humidity. The body's mechanism for regulating temperature is sweat—we evaporate water and so the body cools down. But with high relative humidity, evapotranspiration won't occur." He translates: "The threshold at which people can collapse is much stronger in tropical regions with high humidity, such as the Amazon, than in other regions of the planet."

"And there's agribusiness: Brazil is going to have to rethink how to structure the future of our economy, because clearly, agribusiness in central Brazil doesn't have much of a future," he said. "Agricultural productivity will decrease. Evapotranspiration [from trees] increases and there's less rain. It is no joke."

He continues: "Agricultural productivity in Rio Grande do Sul, with increasing flooding, is also going to fall. This is in all the FAO [Food and Agriculture Organization of the United Nations] forecasts, in all the IPCC forecasts, it's nothing new. Brazil needs to prepare for the new climate."

Mr. Artaxo is spending two weeks in Mainz, Germany, at the Max Planck Institute analyzing greenhouse gas samples collected in the Amazon. Max Planck is a leading institution in scientific and technological research.

The temperature outside the building is 3 degrees Celsius, but the professor at the University of São Paulo's Physics Institute is connected to the heatwave sweeping Brazil.

A researcher at the Institute for Advanced Studies, also at the University of São Paulo, Mr. Artaxo reinforces what he has been observing. "We are living through a very critical period of transition. Our economic system is absolutely unsustainable, even in the short term, for something we don't really know, nor do our societies, what it is. We will have to learn to be much more sustainable and use less of the planet's natural resources," he said.

He explains that what we are experiencing today, worldwide and in Brazil, expressed in a succession of extreme events, is the result of greenhouse gas emissions since the Industrial Revolution. "The half life of CO_2 in the atmosphere is a few thousand years. In other words, the emissions we are producing today will have an impact on the climate over the next few thousand years," he explains.

He clearly states that exploring new oil fronts "is the worst thing you can do." He is referring to Petrobras's plans to explore new wells in the so-called Equatorial Margin.

Mr. Artaxo also criticizes the current high demand for energy in the country. Renewables, based on wind, solar and biomass energy, can't cope and the country is turning on fossil fuel-fired thermal plants. "Brazil has to restructure its energy production system so that it doesn't have to turn on thermal plants when it gets to a situation like this, because this is already the new climate."

What should the country do? "Brazil has to adapt to the new climate," he repeats. "In other words: we have to have a coherent adaptation plan so that society can be better protected against extreme weather events including floods—as happened in Rio Grande do Sul, Santa Catarina, and is happening in almost all of the country's urban areas. It must prepare for heatwaves like the one we're experiencing now, with contingency plans to protect the population. And reduce emissions. Both reducing Brazil's emissions, which come from deforestation, and entering international forums to force countries to eliminate oil from electricity generation and the transportation sector."

He continues harping on about the same thing. "As well as protecting the population against extreme weather events, there have to be fundamental changes in Brazil's economic structure. Because we have a country with an economy that is very dependent on the climate, on agribusiness. And almost 50% of electricity generation in Brazil is hydroelectricity, which depends on rain, which depends on the weather."

Mr. Artaxo says that taking inspiration from other countries' adaptation experiences is a mistaken perspective. "Adaptation requires local solutions. The Dutch experience cannot be applied in Brazil. Venice's cannot be applied in Santos. Brazil will have to develop its own adaptation strategies, which will vary from place to place. This is important. We have to find Brazilian solutions," he advises. He cites, for example, coastal cities with underwater sewage outfalls and suggests debating other ways—the sea water rises and tends to push the waste back.

There is a huge social challenge to think about and address right now. "In the Northeast region, millions of Brazilians live in a Semiarid region that is becoming arid. Rainfall is falling and temperatures are rising. What will

Brazil, as a nation, do to remove millions of Brazilians who currently live in the Semiarid of the Northeast region and who will not be able to survive there in the coming decades?” he asks.

Will they be the first domestic climate refugees? “All countries, for different reasons, will have their climate exiles. In the case of Brazil, the most obvious are the people of the Semiarid of the Northeast region and the São Francisco Basin, which are suffering a sharp reduction in rainfall. The São Francisco will dwindle, and with it the socio-economic activities that depend on water. This is not a prediction of the future: it’s already happening.”

Europe has had severe heat waves since 2003. “This is the new climate,” he said once again. “We’re frightened by what’s happening in Brazil, but it’s happening all over the world. In Canada, in 2021, temperature hit 42 degrees Celsius in Vancouver, which had not happened in 200 years. In California, in the Nevada desert, it hit 53 degrees Celsius.”

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

11/22/2023

ARGENTINA TRIES TO CONTAIN PRICES UNTIL MILEI TAKES OFFICE
Price control agreement extended after president-elect’s meeting with outgoing president Alberto Fernández

Argentina’s President-elect Javier Milei met Tuesday with outgoing President Alberto Fernández before the markets opened to begin the political transition. At the meeting in the official residence of the president in Olivos, they defined rules of coexistence and economic measures until the date of the inauguration on December 10th.

“It was a cordial and productive conversation. We dealt with our differences politely,” said Mr. Milei.

Immediately after the protocol meeting, Matías Tombolini, secretary of Commerce, met with representatives of the main supermarkets to extend the current price control agreement until December 10, authorizing increases, starting today, of between 5% and 12% in two stages. The same request was made to representatives of food and drink manufacturers, since supermarkets have reported that suppliers have increased prices by between 9% and 50% and have stopped deliveries.

The shortage of dollars, the price controls, the internal debt in pesos, and other distortions are some of the time bombs from the cursed legacy that could explode under the Milei administration. One is Central Bank’s peso bonds, which prevent the end of exchange controls. There are more than 24 billion pesos in bonds due every 28 days—the LELIQS, or liquidity letters—and the so-called Pases, which are financial operations between banks.

“There’s no way of releasing the exchange control if you don’t solve the problem of domestic debt securities because they represent between three and four times the size of the monetary base,” said analyst Norberto Sosa, director at the IEB Group.

He compared the situation to “a pressure cooker, in which these liabilities are growing catastrophically, at an annual interest rate of more than 200%.”

According to Mr. Sosa, sterilizing pesos by issuing these bonds keeps inflation under control. Releasing exchange controls overnight is almost impossible because it would lead to an explosion in prices.

This is the market’s biggest concern: what to do with the LELIQS and other peso Treasury debts. The fear is of a compulsory exchange, like the Bonex Plan, which was put in place before the decision to peg the local currency to the U.S. dollar in the 1990s.

In his first interview after being elected, Mr. Milei ruled out a re-run of Bonex, but also did not indicate how he intends to solve the problem. “He is thinking of an operation that is voluntary, not forced. And that’s where the intrigue of how these operations would be begins,” said Mr. Sosa.

Emilio Ocampo, the future "last" president of the Central Bank under Mr. Milei, mentioned that part of the dollarization plan is to create a trust fund with different Central Bank assets, including global securities and dollar bonds.

"The problem is that some have a market value, but there are other instruments, called non-transferable bills, which are bonds placed by the Treasury at some point with the Central Bank to draw down reserves, and they have no value," said Mr. Sosa.

For former undersecretary of finance Miguel Kiguel, executive director of EconViews, the current government will leave everything as it is so that Mr. Milei can solve the problem. He doesn't think that the LELIQS are a problem now because the banks "will continue to roll over these bonds because they have nowhere to put the pesos, so they'll go back to the LELIQS, which is the safest thing for them."

In its first market operation since the second round of voting, the Ministry of Economy raised 1.76 billion pesos to cover next week's maturities of 1.52 billion pesos, at a rate of 115%, said Finance Secretary Eduardo Setti.

The other bombshell, listed by Mr. Sosa and Mr. Kiguel, is the paralysis of the economy because there is a lack of dollars for foreign trade operations, which are at a standstill. To try to relieve the pressure and attract dollars to the Central Bank's foreign exchange reserves, the government extended the "export dollar" with a more attractive rate until December 10.

In addition, the next government will face a heavy schedule of debt servicing with the International Monetary Fund (IMF). This amounts to around $1.7 billion by the end of the year and $4.1 billion by May 2024.

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

11/22/2023

VEGETABLE OIL ASSOCIATION DEFENDS POSTPONEMENT OF EU ANTI-DEFORESTATION LAW
According to Abiove, there is "high risk" of trade problems between Brazil and the European Union due to "insufficient" deadline

Brazilian Association of Vegetable Oil Industries (Abiove) sees a "high risk" of trade problems between Brazil and the European Union due to the "insufficient" deadline for implementing technical aspects of the economic bloc's anti-deforestation law at the end of 2024, said André Nassar, the trade association's executive president.

In an online meeting of the Brazil-Germany Agricultural Political Dialogue (APD) on Tuesday, Mr. Nassar criticized the closing date set by the Europeans to demand deforestation-free production. The legislation aims to ban the entry of eight commodities, such as soy, meat and wood, from deforested areas from 2021.

"The closing date in the past is unfair to rural producers. They are, in 2023, being told that the area they legally cleared after 2020, but before 2023, is no longer eligible for Europe. If they had known that the area was no longer eligible, they might have decided differently," said Mr. Nassar. "Europe should have set a future date, to give the industry and producers in the producing countries time to adapt."

In Mr. Nassar's opinion, there is a need to postpone the effective implementation of the law, not least because of the seasonal nature of the Brazilian harvest.

"The European Commission hasn't defined all the technical procedures with enough time for adaptation. The beginning of 2024 is the harvest in Brazil, it will be the last crop harvested before implementation begins, but this product will be marketed in 2025 to Europe. It's important to understand that it's necessary to postpone because of the crop cycle and because the technical procedures haven't been defined," he said.

Another point of concern is the possible need for the industry to create specific physical structures to "segregate" the soybeans to be sold to Europe, so that they don't get mixed up with unverified grains.

“Either this segregation is done in the chain of custody or soy is excluded. The exporter would be forced to refuse to buy from certain regions or polygons in which the soy was planted on deforested land,” said Mr. Nassar. He added that a dedicated physical structure for this soy will lead to higher costs for consumers.

He mentioned a proposal from the Brazilian soy production chain for Europe to accept a small portion of unverified soy during a transition period. This would be 3% of the volume exported over the first three years of the law’s implementation.

He also criticized the fact that Europe did not consult the control mechanisms applied in the Soy Moratorium 15 years ago, a private agreement that prevents trading companies from buying soy produced in deforested areas after 2008.

“Instead of coming to understand the control procedures, Europe decided to create specific control procedures, totally out of step with what already happens on a daily basis, with concrete examples,” he criticized at the meeting.

For Mr. Nassar, “there is an attitude on the part of the European authorities that we are going to explain what we do to them now that the law has been passed, whereas during the approval process they should have come to see and learn from our process, which has been working for 15 years.”

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

11/27/2023

AMERICANAS SIGNS AGREEMENT WITH CREDITORS FOR MORE THAN 35% OF ITS DEBT
Among main terms are payments for class I, IV and labor creditors and small entrepreneurs, full amount for claims up to R$12,000

Americanas has confirmed that it has signed an agreement with creditors for more than 35% of the company’s debt and that it will file an addendum to the court-supervised reorganization plan with the 4th Business Court of the State of Rio de Janeiro. The agreement was signed after negotiations that lasted all weekend.

According to a statement issued by the company, the parties agreed to support the restructuring transactions provided for in the court-supervised reorganization and to vote in favor of the plan at the general creditors meeting called for December 19 and January 22, 2024.

Among the main terms of the agreement are payment for class I and IV creditors, labor creditors, and small entrepreneurs, as well as full payment for creditors with claims of up to R$12,000, and the availability of R$40 million for those creditors with claims of more than R$12,000 who accept the agreement and waive the excess amount.

Differentiated payment conditions were also approved, including full payment in some cases for the company’s suppliers.

The agreement also discussed a capital increase of R$12 billion, through the contribution of cash resources and the capitalization of credits related to the debtor-in-possession (DIP) modality of financing not subject to bankruptcy rules existing on the date of the capital increase.

The creditors agreed that, for an amount of up to R$12 billion, all other shareholders would be given pre-emptive rights to the capital increase by capitalizing on their claims against the company.

As part of the capital increase, for every three shares issued, a warrant will be granted as an additional benefit, the exercise price of which will be R$0.01.

Following the completion of the capital increase, a general shareholders’ meeting will be held to decide on the election of a new board of directors with a two-year term of office.

It will also be voted the decision to earmark up to R$8.7 billion for payments to financial creditors, through a reverse auction (R$2 billion) or early payment of credits at a discount, up to R$6.7 billion.

After implementing the restructuring measures set out in the court-supervised reorganization plan, a gross debt of R$1.875 billion will remain.

“Specifically regarding the capital increase, the company informs that, at the request of the creditors and under penalty of extinction of the [plan support agreement] PSA, the company must, by the date of the AGC, obtain the necessary corporate approvals to include in the plan a provision that the shares to be issued in the capital increase will have their issue price fixed based on the volume-weighted average price (VWAP) in the last 60 calendar days preceding the day before the AGC [meeting of creditors],” the company said in a notice of material fact.

If all the necessary approvals are obtained, including from the general shareholders’ meeting, and given that every three shares issued will be granted a warrant with a symbolic exercise price (R$0.01), the issue price of each share will correspond to 1.33 times the average market price indicated.

Americanas also informed that it managed to secure in the negotiation the firm commitment for a line of bank guarantees or surety bonds for a volume of R$1.5 billion available for a period of two years from the conclusion of the restructuring stages applicable to creditors who secure the granting of bank guarantee lines or surety bonds, or until the end of the court-supervised reorganization, whichever comes first.

In return for this firm commitment, the company’s statement says that all eligible creditors who sign the plan support agreement under the conditions described will be guaranteed the right to receive a portion of the amount of R$1.5 billion from the advance payment of credits totaling R$6.7 billion provided for in the court-supervised reorganization plan.

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

11/27/2023

TAX OVERHAUL PASSED BY SENATE INCREASES TOPICS FOR FUTURE REGULATION
According to experts, open questions will require more complex supplementary bills

The tax reform text approved by the Senate has increased the number of topics that will depend on regulation in future laws compared to the version initially voted by the Chamber of Deputies. The numbers vary depending on the criteria used, but law firms consulted by Valor point to between 20 and 30 more issues.

This does not mean that more supplementary or ordinary bills will be needed to regulate the reform. According to government experts, three main bills will certainly be needed. One of them will be to regulate the two taxes that make up the dual Value Added Tax (VAT)—the Tax on Goods and Services (IBS) and the Contribution over Goods and Services (CBS). Another will deal with the IBS management committee and a third will regulate the selective tax. But with more open questions, these laws will deal with more issues and be more complex.

Among the points added by the Senate are special regimes for sanitation services, highway concessions, and distributed electricity micro-generation and mini-generation operations. There is also the creation of new regional funds and a federal tax Cide to guarantee the competitiveness of the Manaus free trade zone. On the other hand, the Senate has already defined rules for dividing up the resources of the National Regional Development Fund (FNDR), something the Lower House had not done.

Surveys carried out by three major law firms at Valor’s request show that there has been an increase in the points that need to be regulated. According to Mannrich e Vasconcelos, the Lower House’s version required 54 points to be detailed, compared to 70 in the Senate version. According to law firm Brigagão, Duque Estrada, the deputies left 41 topics open and the senators left 61. In Demarest’s assessment, there were 69 items in the Chamber of Deputies and 98 in the Senate.

Differences in methodology explain the divergent figures between the three studies—such as considering that each activity benefiting from a reduced rate is a different issue or not—but they all point to the same path warned by experts: the tax reform that came out of the Senate reduced the desired simplification and left more issues open.

The provision of supplementary bills to deal with some issues that should not be included in the Constitution is normal, according to experts heard by Valor. But forecasts indicate that, for at least the next two years, the government will need to keep negotiating in order to approve key points of the reform and sectors will need to remain attentive to regulations, whether they are in exception rules or not.

If one of the bills is to be analyzed more quickly, it would make sense for it to be the one that deals with the management committee, according to the experts. The preliminary idea is for the bill to be led by states and municipalities with the participation of the federal government.

For one expert, it makes no difference to have more or fewer indications of a supplementary bill, because a bill won't be needed for every point mentioned in the proposal to amend the Constitution (PEC). "In general, the references are to the supplementary bill that will regulate IBS and CBS," this source said. The extraordinary secretariat for tax overhaul of the Ministry of Finance has also made a survey of the points to be regulated, but only for internal consumption.

Ideally, the officials would like to approve the supplementary laws in 2024, to resolve operational issues before the test period begins in 2026. The text of the constitutional amendment proposal sets a deadline of 180 days for the regulatory bills to be submitted, but the officials prefer to work with a shorter deadline, depending on collaboration with states and municipalities.

It is expected that, when regulating specific regimes, there will be sectoral pressures—not least because the supplementary bills will clearly define the list of goods and services that will have reduced rates. The experts intend to show how different options in these regulations can affect the standard tax rate.

"Certainly this second stage may be even more complex than the first," said Gustavo Brigagão, a partner at Brigagão, Duque Estrada. For now, the discussion is about how the system will work, and the supplementary bills will go down to the details. "The devil is in the details," he said.

For the lawyer, the volume of items in supplementary bills will generate the need for very intense discussions in the National Congress. "What can't happen is for these supplementary bills not to be voted on," he said.

Supplementary bills are important because not every issue can be dealt with in the Constitution, but the lawyer believes that some delegations to supplementary bills are "mistaken." Mr. Brigagão recalls that, in the past, the lack of some definitions in the Constitution has already led to problems, such as the concept of non-cumulativeness of social tax PIS and Cofins, which generated a great deal of tax litigation.

In the current wording, the lawyer's concern lies in the determination that the tax will not be cumulative, being offset in all transactions except those considered for personal use and consumption. "A very important concept, which is that of use and consumption, has been delegated to a supplementary bill. It opens the door to enormous litigation," he said.

Tax expert Ana Claudia Utumi, a partner at Utumi Advogados, also points out that much of what has been discussed as guarantees for taxpayers, such as broad credit, depends on supplementary bills. "What will be considered personal property is an important definition, because it determines whether I can take credit or not. The supplementary bill can provide a more or less restrictive criterion."

For Thais Shingai, a partner at the law firm Mannrich Vasconcelos, another relevant point is that of rate reductions. "The clearer and more assertive the supplementary bill is, the less room there will be for complexity and litigation." The lawyer stresses that, for the reform to really begin, at least two points need to be dealt with in supplementary bills: the details of IBS and CBS. Ms. Shingai points out that the quorum needed for a supplementary bill makes it easier to pass than a constitutional amendment.

"Once the Constitution is changed, the real game begins," said Douglas Mota, a partner at Demarest Advogados. According to the tax expert, many items are being left to a supplementary bill and one rule would be enough.

“There are two years for supplementary bills. Some are more urgent than others,” he said. The lawyer estimates that the number of points requiring a supplementary bill has risen to 98 from 79, not least because new special regimes have been created.

“The longer it takes to pass the bill, the greater the uncertainty for new investments,” said Bruno Checchia, a partner at Bichara Advogados. There is a fear that the selective tax will become what the tax on large fortunes is today, according to Mr. Checchia—a tax for which the Constitution requires a supplementary bill which has never been passed. Most of the issues are urgent, according to the lawyer, and the sharing of many laws makes it more challenging to negotiate each one.

Reginaldo Lopes, head of the Lower House’s working group that dealt with the reform, said that the important thing is that the Senate’s PEC did not increase the number of supplementary bills that will be needed. “They’re just more points to be dealt with in the planned bills. It’s nothing absurd, given a tax system that currently has 60,000 rules,” he said.

He emphasized that Congress will avoid the “ping-pong” of the PEC between the houses and its slicing and, therefore, the lawmakers will work only with the suppression of points already approved by the senators, but without presenting new proposals or changes of merit.

Economist and Congressman Mauro Benevides also agrees that the important thing is not whether there are 20 or 30 more points of regulation, but how complex it is. “The problem is whether these are regulations that are easy to write and understand in legal circles, or whether they could cause controversy. That’s what we’re going to analyze. I’m not worried about the number. I’m worried about the complexity of the items that are going to be regulated,” he said.

The team of Eduardo Braga, the rapporteur of the tax reform in the Senate, said in a statement that “the data cannot be validated” and that the Senate consultancy indicated 57 points of regulation in the Lower House’ text. However, when questioned, it did not reveal what these items are or the number of pending issues in the Senate text. The Senate’s institutional press office did not respond to a request for more information.

Mr. Braga also said in the note that these figures cannot “measure any complexity’. The rapporteur “established a maximum period of 180 days for the Ministry of Finance to propose the regulation of the changes approved under the PEC. All of this regulation could be brought together in three or four supplementary laws, as the ministry itself has already signaled, regardless of the number of points that will need to be regulated,” he said.

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

11/28/2023

AURA MINERALS OUTLINES PLAN TO CATCH UP WITH MAJOR MINING COMPANIES
Company aims to produce up to 1 million equivalent ounces/year in medium term

Aura Minerals has a well-defined strategy to catch up with large global gold mining companies, a group known as majors, in the medium term. The plans include completing projects that have already been mapped out, expanding existing operations, and seeking new mergers and acquisitions. Two months ago, the mid-tier gold and copper producer began commercial production at its fourth mine, in the state of Tocantins.

With the recent start-up of Aura Almas in Tocantins and two other approved growth projects, Matupá (Mato Grosso) and Borborema (Rio Grande do Norte), the company expects to reach annual production of 450,000 gold equivalent ounces (GEO) by 2025.

For the following years, the goal is to produce between 500,000 ounces and 1 million ounces annually, a volume already at the base of the majors pyramid, which is topped by Colorado-based Newmont Corporation, Toronto-based Barrick Gold, and Johannesburg-based AngloGold Ashanti.

Considering geological research, soil mapping, the end of construction at Almas, and the start of Borborema, the mining company expects to invest between $66 million and $72 million. But it is willing and able to invest more.

As part of its strategy to grow through mergers and acquisitions, Aura hired Wood Mackenzie to map out assets that could be targeted for purchase. The selection of assets started from a list of 900 projects, which has now been reduced to 20 candidates. The filters used in the selection were being in the Americas, having proven reserves, and being close to or at the start of operations. At the same time, Aura itself is identifying other potential projects, but no decision has yet been made and no negotiations are underway.

With operations in Mexico, Honduras, and Brazil, the mining company currently has a preference for new copper projects, in order to dilute its exposure to gold and have a better balance between the commodities. There may be room for a purchase or association over the next year, says the company's CEO, Rodrigo Barbosa. "It's a story of accelerated growth, but with discipline," he said.

According to Mr. Barbosa, the company has the balance to grow and maintain the payment of dividends to shareholders. In 2022, when it made a net profit of $66.5 million, it distributed $20 million in dividends and invested $10 million in share buybacks.

To deal with potential acquisitions, Aura could use cash or shares, since the controlling shareholder has no restrictions on possible dilution. Listed on the Toronto Stock Exchange in Canada, the company also trades BDRs (Brazilian Depositary Receipts) on B3. Its largest shareholder, a Brazilian investor, owns 55% of the company. Kapitalo, one of the country's largest independent asset managers, is the second largest shareholder, with an 8% stake.

According to Mr. Barbosa, Aura's focus is on being a mining operator and project developer, not an explorer of new deposits. But the company also conducts its own research, which led, for example, to the discovery of the copper potential of Serra da Estrela, in Pará, still at the exploration project stage. Development in the so-called "early stage" is more opportunistic, although very promising, says the executive.

At the beginning of the month, Aura bought an 11.3% stake in Altamira Gold, which is developing exploration projects in Pará and Mato Grosso, for $2.2 million. Depending on the progress of the projects, the company may sell or increase its stake in Altamira Gold. "It's a strategic investment," said Mr. Barbosa.

As well as dealing with the achievements and pains of growth, Aura faces the challenge of convincing analysts and investors that it will overcome the current difficulties. The potential of the projects with mapped and proven reserves is recognized but for the time being it is not reflected in the company's value of around $500 million.

The market's focus remains on the short term, which is considered "challenging" due to operational or climatic issues, which have affected the productivity of more than one operation, and ended up leading to two revisions of production and cost estimates for 2023. For this year, the company estimates production of 231,000 to 252,000 equivalent ounces.

In a report on the third quarter results, BTG Pactual analysts Caio Greiner and Leonardo Correa highlighted the start of commercial production at Almas and the recovery of production at San Andrés, in Honduras, "which seems to be on the road to normalization." But they did not welcome the downward revision of production estimates and the upward revision of cash costs, as well as the lower-than-expected initial productivity at Almas. "We continue to like Aura's long-term story, but have warned of a challenging short-term," they wrote.

According to Mr. Barbosa, the mining company's consolidated production curve, looking at the last 12 months, already indicates a turnaround. In Almas, the expectation is also for a recovery. Looking ahead, one of the company's great assets is the Borborema project, which could double in size in the long term.

At the helm of Aura since 2017, Mr. Barbosa has led an extensive restructuring of the mining company, which in 2016 was valued at $20 million and produced 120,000 ounces a year in Brazil and Honduras—the operation in Mexico had been shut down.

One of the mistakes of the previous management was to insist on the Serrote project, with an estimated investment of $400 million, far beyond what the company could afford. The project was sold in 2017, the same year that Aura reduced its staff and moved its administrative office from Toronto to Miami. Today, it has 3,716 employees, including 930 contracted and 2,786 outsourced.

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

11/29/2023

VIBRA REJECTS ENEVA'S OFFER BUT LEAVES DOOR OPEN FOR FURTHER TALKS
Distribution company called proposed terms "unjustifiable," but is willing to negotiate

Vibra informed the market on Tuesday that it considers the share exchange indicated in the proposed merger with Eneva to be "unjustifiable." The fuel distribution company also claimed that "it is clear that the proposed terms of exchange for the proposed merger are not attractive to Vibra's shareholders."

According to Eneva's proposal, which was sent to Vibra's board on Sunday (26), the energy company is seeking a "merger of equals"—in other words, each company would own 50% of the combined company. However, with Vibra valued at R$25 billion, based on Friday's (24) closing, and Eneva at R$20.7 billion, it doesn't make sense for each to have 50% in the new company, said analysts and shareholders, including the management companies Squadra and Dynamo.

There are other issues to overcome. Squadra, a Vibra shareholder, has said it will oppose the merger, and Dynamo, a common partner of the two companies, has expressed opposition to the initial terms of the deal. In addition to improving the proposal, it will be necessary to reach agreement with all shareholders. For example, Squadra does not agree with BTG Pactual's intention to include four thermal plants in the deal.

The news that Vibra's board would reject the proposal was already expected by Eneva's board, which took the situation as a given, according to a primary Eneva shareholder who spoke on condition of anonymity.

"There's a whole process. The natural reaction is to lay out the points, open a negotiation, and try to present yourself as a more valuable player," the source said. "That opens the channel for us to sit down with the advisors and negotiate. That is almost the natural way to go."

In the statement, Vibra said it did not go into detail about how strategic is the deal, but said the "possible synergies indicated" in the proposal were largely based on the strength of its capital structure and unique customer base.

Vibra also noted the need for further clarification on the governance model of the combined business, should the two companies ultimately merge.

For Eneva, this means leaving the door open for future negotiations. "The idea is to explain the benefits and the governance we believe in," a source said.

This was predicted by analysts as a reason for Vibra's board to reject the first offer to improve the terms. By Eneva's reckoning, the "merger of equals" is justified because Eneva's market capitalization was higher in 64% of trading sessions over the past 12 months, while Vibra outperformed the energy company in 36%.

Vibra's message is that if Eneva is willing to "significantly improve" the terms presented, it will engage its advisors for negotiations.

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

11/30/2023

SENATE PASSES BILL TO TAX OFFSHORE FUNDS
Rapporteur chose to maintain the Lower House's version; text passed a symbolic vote and awaits presidential signature

The Federal Senate approved Wednesday (29), by agreement, a bill to tax offshore investments and single-investor funds. The text, reported by Senator Alessandro Vieira, made no changes on the merits of the version previously approved by the Lower House. The bill now goes to President Lula for his signature.

The vote was symbolic and had the support of oppositionists. Opposition leader, Senator Rogério Marinho, did not formally oppose the analysis of the matter.

As Valor learned, the agreement included support from part of the governing coalition for the proposal to amend the Constitution (PEC) that limits monocratic decisions by justices of the Federal Supreme Court (STF), last week.

Seeking to avoid a delay to the process, rapporteur Alessandro Vieira agreed to the vote despite his absence in floor vote. He traveled to participate in the COP 28 meeting in Dubai. The rapporteur's performance received behind the scenes applause at the Ministry of Finance.

"His presence is not required, as the matter has already been duly based," Senator Veneziano Vital do Rêgo (MDB-PB), the acting speaker, explained.

According to officials at the Ministry of Finance, the final text is "excellent." The bill is among Finance Minister Fernando Haddad's priorities to increase revenue, and therefore the government rushed to vote it.

The economic team expects the approval to generate R$3.5 billion to R$4 billion to public treasury this year. Such amount is necessary to compensate for the loss of revenue estimated at R$3.2 billion, resulting from the increase in the Individual Income Tax (IRPF) exemption cap effective since May 1.

After President Lula signs the bill into law, regulations by the Federal Revenue Service and by the National Monetary Council (CMN) are required before the tax can be charged. The amount of R$3.5 billion will come from taxation of single-investor funds' assets.

The rule approved on Wednesday allows for collecting income tax on funds' assets at a rate of 8%, in five installments, starting in December. Those who choose not to pay up front will be charged by 15% in May 2024 an amount that can be paid in installments over 24 months.

The bill also introduces a semi-annual income tax (the so-called "come-cotas") on offshore and exclusive funds, which already applies to other funds in Brazil. According to government estimates, the taxation of these two funds will bring R$20.3 billion in revenue next year. In the market, the estimate is that it could reach twice that amount.

Taxation of offshore and exclusive funds was part of the Income Tax reform package, which the government plans to send to Congress in 2024. It was brought forward to strengthen the fiscal adjustment.

Marking another victory for the government on the economic agenda, Congress set up a joint committee to analyze the provisional presidential decree on investment subsidies. Senator Rogério Carvalho was elected leader of the committee and appointed Congressman Luiz Fernando Faria as a rapporteur.

On another front on the economic agenda, the sports betting bill had a setback and its vote was postponed due to pressure from the opposition. Lawmakers against the text claim that, by including online gaming, the bill can virtually allow activities that are prohibited in Brazil, such as casinos. A new vote should take place on Wednesday (6). Lawmakers from the governing coalition are optimistic about its approval.

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