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NEWSLETTER

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FIRJAN POINTS OUT WAYS TO INCREASE GAS PRODUCTION IN BRAZIL
Rio de Janeiro state accounts for 70% of Brazil's gas production; only 24% of it reaches consumer market

There is shortage of natural gas in Brazil to meet growing demand. That is the conclusion of the "Prospects for Gas in Rio," a study by the Rio de Janeiro Federation of Industries (Firjan) to be released this Tuesday (30). "There is a consumer market interested in a greater supply of gas in the country; what is missing in order to meet such potential is greater availability on a competitive basis of price and accessibility," the study states.

According to Firjan's survey, the state of Rio de Janeiro accounts for 70% of the Brazilian gas production, but only 24% of it is made available to the consumer market. Among the reasons for that situation, according to Firjan, is the high cost of production, due to the location of producing areas and the existence of contaminants. The volume of gas reinjected by oil companies into wells to streamline production has also increased, the report says.

Natural gas is seen as a key element for energy transition, according to the study. Therefore, companies' demand for the product has increased, following the trend of seeking a position in a "greener" market. "Gas is a transition energy source given its lower greenhouse elements emissions," Luiz Césio Caetano, vice-president of Firjan, notes. "We need to make natural gas more competitive."

According to Firjan, the fact that natural gas is mostly associated with oil production should be regarded as a differentiator in the global market. Brazilian oil, especially that extracted from the pre-salt layer, is one of the most competitive in the world given its low operating costs and low greenhouse gas emissions. "Our production has proven to be resilient to adverse scenarios in recent years, including the effects of the COVID-19 pandemic and the war in Eastern Europe, which had strong impact on the global energy scenario, especially on oil and natural gas."

"Strategies to streamline the production process, such as adapting existing and idle infrastructure in the Santos basin, must be considered and evaluated as alternatives to reducing investment in natural gas."

Rota 3 gas pipeline intended to connect pre-salt fields in the Santos Basin to the Gaslub hub for 355 kilometers is expected to enter into operation in the second half of this year. It is expected to ease pressure on supply, according to Mr. Caetano. The pipeline's capacity is approximately 18 million cubic meters of gas per day. Another project also awaited by the industry in the longer term is the BM-C-33. Scheduled for 2028, the project includes an area operated by Equinor in partnership with Repsol Sinopec Brasil and Petrobras and is expected to flow 16 million cubic meters of gas per day.

Still, Prio, which participates in the Firjan study, argues that the two projects, Rota 3 and BM-C-33, will not be enough. According to the independent oil company, improvements to the country's infrastructure are required to transport production: "If that [infrastructure construction] is not done, the operation growth will be limited. Rota 3 (2024) and BM-C-33 (2028) are under construction to expand capacity, but they will probably not be enough to supply the entire sector."

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

02/01/2024

APPROVAL OF MINERVA-MARFRIG DEAL COULD TAKE LONGER THAN EXPECTED
Antitrust watchdog CADE says acquisition of assets is not simple, requires more time for analysis

The approval—or not—of the acquisition of Marfrig's beef assets by Minerva Foods should take longer than the companies had previously expected. The companies submitted the deal to the Administrative Council for Economic Defense (CADE) on September 27, 2023, when an obstacle to approval was the incomplete composition of the tribunal. But even after the appointment and installation of four new members, the antitrust regulator's General Superintendence (SG) considered the operation was not simple and, therefore, required more time study it.

The deal includes the acquisition of part of Marfrig Global Foods and Marfrig Chile's beef and sheep business, encompassing slaughtering and deboning plants, plus a distribution center. The assets are located in Brazil, Argentina, and Chile.

The deal doesn't mean Marfrig's exit from the animal slaughtering segment, as the company will maintain other plants. Both companies told CADE that, for Marfrig, the deal is in line with the strategy of focusing on the production of branded meat and high value-added products. As for Minerva, the acquisition is "a strategic opportunity to complement its operations," with a focus on savings through scale and efficiency gains.

When the companies announced the R$7.5 billion deal to the antitrust watchdog, they described it as a summarized concentration act, a format intended for operations that are considered to be simple, whose deadline in this case is 30 days. As the General Superintendence turned it into an ordinary act, the process can take up to 240 days. In addition, the new deadline considers January 22nd as the starting date, when the General Superintendence asked the companies for new information regarding the operation.

The 240-day period is set out in the legislation. When contacted, CADE explained that the General Superintendence usually works within a 90-day deadline, a shorter period it tries to meet. Still, it is much longer than what Minerva and Marfrig expected when they submitted the deal.

In an order released in December, the General Superintendence said, given that in at least one of the markets involved in the operation (cattle slaughter in Rondônia), the deal could give Minerva a dominant position (with a market share exceeding 20%), it's not possible to classify it as a summarized procedure.

Additional evidence was also requested. Only after that will the superintendence release an opinion on the case.

Based on the decision, if the deal is approved without restrictions, there will be a 15-day period for third parties or members to question the opinion and then move the deal to CADE's tribunal. If the superintendence rejects or approves it with restrictions, the case will necessarily be submitted to the tribunal. If the superintendence approves it and there are no manifestations within 15 days, the deal will receive final approval.

The Brazilian Agriculture Confederation (CNA) requested to participate as a third party interested in the process. The entity says it intends to ensure that ranchers established in the areas of meatpacking plants will not be harmed from market power in the future.

CNA said it sent the antitrust watchdog a technical note in which describing the impacts of market concentration in recent years in the sector. According to CNA, the acquisition of Marfrig's meatpacking operations by Minerva could increase market concentration in some states.

Last week, more than 100 letters were sent by CADE to members of markets that could be affected by the deal. The markets in question involve the sale of fresh beef and lamb in the domestic market; cattle slaughter and its by-products in the domestic market, rawhide in the domestic market; and beef processing activities. Marfrig and Minerva declined to comment.

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

02/02/2024

BRAZIL RESTRICTS ISSUANCE OF TAX-EXEMPT BONDS

The measure also covers agribusiness bonds and other real estate securities; the decision was made at a special meeting

The National Monetary Council (CMN) announced Thursday (1), after a special meeting, a series of limitations on the issuance of tax-exempt bonds. Taken in the context of reducing tax loopholes and increasing tax collection, the measures restrict the types of backing that can be used in real estate receivables certificates (CRI), agribusiness receivables certificates (CRA), and real estate credit bills (LCI). It is also now forbidden to use funds raised through agribusiness credit bills (LCA) to grant rural credit that benefits from federal economic subsidies.

The changes, effective as of July, come after strong growth in the use of these instruments, including in operations not directly related to the sectors being incentivized. These securities all offer exemption from income tax for investors. The stock of tax-exempt bonds already exceeds R$1 trillion.

The Ministry of Finance has managed to approve taxation on offshore companies and closed-end funds. According to a government source heard by Valor, the CMN is now seeking to tighten the rules for issuing tax-exempt bonds, ensuring the funds raised are strictly directed towards financing agribusiness and the real estate sector. We're closing loopholes; 2024 is the year when the rich get into income tax," said the source.

The Central Bank has denied that the changes are aimed at reducing the volume of issuance of tax-exempt instruments. However, its experts told journalists that a drop in issuance could occur.

"The aim is to ensure that issuances serve as a source of funds for public policies, but a reduction in the volume of LIG (Real Estate Secured Bills) and LCI is expected," said Felipe Derzi, deputy head of the Central Bank's Financial System Regulation Department. "The market will have to find other business models to support what is not linked to public policy."

The CMN changed the rules and terms of the LCA, LCI, and LIG. In the case of the LCA, the funds can only be used to contract rural credit "at rates freely agreed under market conditions."

The collegiate body also prohibited the use of advances on foreign exchange transactions, export credits, receivables certificates, and debentures as LCA backing. The minimum maturity of the LCA was also extended from 90 days to nine months. Another change to the LCA no longer allows the "possible overlapping of tax benefits." The aim is to gradually restrict the use of rural credit operations with controlled resources in the composition of LCA backing by July 1, 2025.

The changes to the LCI extend the minimum maturity from 90 days to 12 months and specify the types of real estate credit accepted as backing. The amendment removes the possibility of using operations with no connection to the real estate market, even if they are backed by real estate.

With regard to the LIG, the CMN decided to apply the same rules as for the LCI on the backing of real estate credits already used to meet the mandatory targeting of savings deposits. The Central Bank explained that the credit balance of LIGs with these characteristics will be deducted in full from the balances of the real estate credits that serve as reference. The Central Bank said that the change seeks to "avoid a double tax benefit without the corresponding origination of new real estate credit operations." Only LCI and LGI issuances that take place after the decision will be impacted by the measures.

The CMN has barred the issuance of CRAs and CRIs backed by debt securities issued by public companies not related to the agribusiness or real estate sectors. According to the Central Bank, the measures aim to "ensure that the instruments are backed by operations compatible with the purposes that justified their creation."

The CMN also prohibited the issuance of rights backed by credits originating from transactions between related parties or from financial transactions "whose resources are used to reimburse expenses." The measures do not affect CRAs and CRIs that have already been distributed or that have public offers registered with the Securities and Exchange Commission of Brazil (CVM).

The possibility of the government restricting the backing of CRIs and CRAs is something that has worried issuers since December, when rumors about a change in the rules grew. In recent weeks, some companies have decided to shorten the timetable to secure issuances that still comply with the old rules, according to lawyers. At least four issuances that were due to go ahead in the next few weeks have already been paused.

“The measure was much worse than we could have imagined and significantly limited CRI and CRA operations,” said Daniel Laudisio, a partner in the capital markets area at Cescon Barrieu. “As it will greatly restrict those who can raise funds with these securities, the tendency is for the cost of funding to rise.”

Ricardo Stuber, a partner at TozziniFreire, believes that the most significant impact will be the ban on transactions in which the debtor is a publicly traded company or a related party of a publicly traded company and which are not in the real estate or agribusiness sectors. “Another important point is that the use of funds for reimbursement, which was very popular in the market and permitted by the CVM, will now be prohibited.”

The change affects the plans of companies that issue so-called “rental CRI,” whose resources are used to pay past and future rents. This possibility is relatively recent and came into existence thanks to the CVM’s relaxation of the rules. Rede D’Or was the first to issue CRIs for this purpose in May 2022. At the time, the hospital chain raised R$1.14 billion.

Back then, the permission was celebrated, as it would significantly increase the list of companies that could access the market. After Rede D’Or, retailers, pharmacy chains, and banks followed. On the agribusiness side, issuances by companies such as restaurant chains with no connection to the sector but which bought inputs from rural producers became common. Vendors from the areas of transportation, logistics, or vehicle leasing also used this relationship with the “agribusiness chain” as backing.

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

02/05/2024

RESTRICTIONS ON TAX-EXEMPT BONDS COULD AFFECT CREDIT FOR AGRIBUSINESS
This is the assessment of experts such as Renato Buranello, president of the Brazilian Institute of Agribusiness Law

The changes made to the rules governing the issuance of Agribusiness Receivables Certificates (CRAs) and Agricultural Credit Bills (LCAs) could have a “negative impact” on the development of the capital market as a source of financing for agribusiness, according to Renato Buranello, a partner at the VBSO Advogados law firm and president of the Brazilian Institute of Agribusiness Law (IBDA).

According to him, any excesses in the issuance of tax-exempt bonds can be limited, but without extreme rules and with an analysis of the regulatory impact. “Agro-industrial chains are made up of small, medium, and large companies. Large companies that issue bonds in the market directly or indirectly drive the entire production chain,” he said.

The stock of these two agribusiness bonds currently exceeds half a billion reais. Consolidated figures until November 2023 show R$449.2 billion in LCAs and R$123.4 billion in CRAs.

The changes were approved at an extraordinary meeting of the National Monetary Council (CMN) on Thursday. The changes will take effect in July for the next crop year, 2024/25, and will not affect current operations.

The CMN banned the issuance of CRAs backed by debt issued by publicly-traded companies not related to the agricultural sector. According to the Central Bank, the aim is to “ensure that the instruments are backed by operations compatible with the purposes that justified their creation.”

Experts believe that the monetary authority’s intention was to prevent a “frenzy” with the issuance of CRAs by companies not linked to the sector.

For Mr. Buranello, this restriction on the composition of the backing for CRAs is a “serious disincentive” to private financing for agribusiness.

The lawyer believes that the changes could cause “serious problems” for the Funds for Investments in Agribusiness Production Chains (Fiagro), which invest in CRAs. According to a technical analysis carried out by the VBSO, the funds “will have difficulties reinvesting when CRIs and CRAs currently in their portfolios are paid off, given the severe restrictions imposed by the CMN.”

The announced restrictions surprised many of the specialists working on the matter. Members of the Ministry of Agriculture’s Thematic Chamber for Credit Modernization and Agribusiness Risk Management Instruments (Modercred) spent Friday trying to understand the real scope of the measures.

The members want to understand whether the changes also apply to Rural Producer Bills (CPR), which have been used to finance a wide range of activities related to agribusiness: from production in the fields, to the purchase of inputs and machinery, to logistical operations.

The doubt arose when one of the resolutions approved by the CMN stated that the restrictions would apply to bonds and instruments with a promise of future payment, such as the CPR. The assessment of Ministry of Agriculture officials is that CPRs will be preserved. In the Ministry of Finance, there are those who think otherwise.

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

02/05/2024

ENEVA, SCANIA, VIRTU PLAN TO DECARBONIZE ROAD TRANSPORTATION
The idea is to promote delivery of goods by trucks powered by liquefied natural gas

Eneva, Scania, and Virtu GNL have entered into a partnership to decarbonize road transportation in Brazil. The idea is to promote the delivery of goods by trucks powered by liquefied natural gas (LNG). The trio has contracts with Vale and Suzano to transport products on the so-called Matopiba route, an acronym for the states of Maranhão, Tocantins, Piauí, and Bahia.

The contract provides for the delivery of 180 LNG-powered Scania trucks at a cost of around R$1 million each, for a total of R$180 million. The idea is that Eneva will be in charge of producing the gas molecule and Virtu for delivering the final product. Virtu and Eneva already work together through a joint venture, GNL Brasil, which engages in the logistics of delivering natural gas to places without pipelines, carrying out transportation, storage, and regasification.

Eneva estimates that the new market for LNG-fueled long-haul trucking could initially demand up to nine million cubic meters of natural gas per day, reducing Brazil’s emission intensity by two million tonnes of carbon dioxide per year. Compared with the traditional diesel fleet, the reduction in carbon dioxide emissions can be as much as 20%.

According to Alex Nucci, Scania’s sales director, the volume of 180 trucks is the largest purchase of LNG vehicles in Latin America. “One of the important points of this operation is the fact that it is all domestic, with engines produced in Brazil. The vehicles are 100% powered by gas, they are not adapted. The price of an LNG vehicle is not that different from a diesel vehicle. But with nationalization and economies of scale, the LNG vehicle may become more competitive.”

Initially, thirty vehicles will be used in the partnership’s first operations, which are due to begin in mid-April. The remaining 150 will be delivered throughout 2024.

GNL Brasil supplies LNG for the industrial activities of Vale and Suzano. For Suzano, which has a plant in the city of Imperatriz (Maranhão), GNL Brasil transports around 160,000 cubic meters per day over a distance of 548 kilometers. For Vale, which has a plant in São Luís, also in Maranhão, GNL Brasil transports around 250,000 cubic meters per day over a distance of 320 kilometers.

Eneva's CEO, Lino Cançado, said the expectation is to achieve scale quickly: "We will start with these 180 trucks, but the vision is that the market is bigger than that and can be scaled up quickly." The project does not have an exclusive contract and could meet the needs of other companies in the future.

Since 2022, Eneva has invested R$1 billion to reach the capacity to liquefy 600,000 cubic meters of gas per day. According to Mr. Cançado, Eneva has idle gas liquefaction capacity and can increase the volume according to demand. The company produced 360 million cubic meters of gas in the fourth quarter of 2023.

Virtu GNL CEO José de Moura Jr. said LNG-powered vehicles combine efficiency with decarbonization: "For long-distance transport like this, the solution is LNG. The electric vehicle has no autonomy, and the vehicle has to make many stops to refuel. Here, in this partnership, we have the molecule, the truck, and the service." Virtu GNL has invested R$5.7 billion to promote the infrastructure of refueling stations.

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

02/06/2024

BRAZILIAN EXPORT VOLUME BALANCES PRICE DECLINE
Record quantity offsets 6.3% price drop, generates 1.7% revenue gain

In the midst of falling prices, the increase in exported quantity led to a rise in Brazil's export revenue in 2023, contributing to a historic trade surplus. Export volume hit a record high last year, continuing a trend established for over a decade. The upward trajectory is expected to persist, albeit at a slower pace compared to the substantial variation seen last year. Forecasts suggest that price fluctuations in 2024 will be less pronounced after the increases observed in 2021 and 2022.

The surge in exported quantity in 2023 was primarily fueled by China, which saw a 30% increase compared to 2022. Additionally, there was a notable 25.9% rise in volume exported to Mexico, propelling the country from eighth to fifth place among Brazil's main export destinations. Although to a lesser extent, increases in volume were also observed in exports to key partners such as the United States and Argentina, with respective upticks of 5.8% and 7.9%. Conversely, sales to the European Union saw a 2.1% decline.

In terms of value, China dominated Brazil's exports in 2023, accounting for 30.7%, followed by the U.S. at 10.9%, and Argentina at 4.9%. Mexico held fifth place with 2.5%, while the Netherlands, serving as the gateway to the European Union, absorbed 13.6% of exports.

Despite a 6.3% decline in the average prices of total Brazilian exports in 2023, export revenues increased by 1.7% compared to 2022 due to an 8.7% growth in shipped quantity, according to data from the Secretariat of Foreign Trade (Secex). This data indicates a historic peak in the export volume index for 2023, surpassing the previous record set in 2022.

Driven by soybeans, iron ore, and oil, sales to China reached unprecedented levels in 2023, exceeding $100 billion for the first time, marking a 16.6% increase over 2022, to $104.3 billion. Despite a 9.7% drop in average prices, the significant rise in volume more than compensated for it.

The export prices and quantum data are from the Indicator of Foreign Trade (Icomex), compiled by the Fundação Getulio Vargas's Brazilian Institute of Economics (Ibre-FGV), based on Secex figures.

Lia Valls, economist and coordinator of Icomex, says that China's performance is explained by Brazil's agenda of exports to the Asian country. The Chinese bought 73% of all the soybeans Brazil exported in 2023, as well as 64% of iron ore and 47% of crude oil, according to Secex data. The three products accounted for 75% of the value of total Brazilian exports to China last year.

The good performance of exports from agriculture and the extractive sector, says Ms. Valls, has been going on since the late 2010s, with agricultural exports growing annually by an average of 10% and extractive activities by 5.2% from 2008 to 2023.

Last year, the record grain harvest led to a greater increase in volume, with a 25% rise in the amount of agriculture exports compared to 2022. The extractive industry advanced by 16.5% in the same comparison. Conversely, the volume exported in the manufacturing industry fell by 0.4%.

Ms. Valls points out that the performance of the balance as a whole also depends on imports. Last year, she stresses, the trade surplus of $98.8 billion was also the result of a very large drop in the trade deficit in the manufacturing industry, which fell to $37.7 billion in 2023 from $57.2 billion in 2022. The economist points out that this movement was mainly due to the fall in the value of imported industrial goods.

Looking ahead, the performance of Brazil's exports to China in 2024 will depend largely on the pace of economic growth in the Asian nation, Ms. Valls said. China, she points out, has always used investment as a way of activating the economy, but fiscal problems could affect this policy. Brazil's grain harvest is expected to be important in 2024, but it is likely to fall short of that of 2023, which will also limit exports. Despite uncertainties, China is expected to maintain growth, albeit at a lower rate compared to previous years—market estimates are below the Chinese government's 5% GDP growth target for 2024. The significant increase in export volume in 2023 was partially due to lower bases in previous years, particularly in 2021 and 2022.

In contrast to sales to China, exports to the United States, Brazil's second largest trading partner, showed more modest figures in 2023. The quantity exported to the U.S. increased by 5.8% in 2023 compared to the previous year, but this was not enough to compensate for the 6.8% drop in average prices, which led to a 1.5% reduction in the value sold to the U.S.

The scenario for the United States is explained by Brazil's diversified exports, as industrialized goods predominate, said Welber Barral, a partner in the BMJ consultancy and former secretary of Foreign Trade. According to Secex, crude oil, semi-finished iron and steel products and aircraft and parts were the three most exported items to the U.S. in 2023, accounting for 31.4% of the value sold by Brazil to the U.S. last year.

Regarding exports to Argentina, the third-largest destination for Brazilian exports, both prices and quantity increased by 1.8% and 7.9%, respectively, in 2023 compared to the previous year, leading to an 8.9% rise in export revenue. However, Mr. Barral recalled that this surge was heavily influenced by atypical shipments of Brazilian soybeans due to crop failure in Argentina. In 2023, Brazil shipped $2 billion worth of soybeans to Argentina. In 2022 there were only $181 million. This level of soybean exports to Argentina is unlikely to be repeated in 2024, said Mr. Barral.

Soybeans accounted for 12% of the value shipped to Argentina last year, the same share as automotive parts and accessories. In third place were passenger cars, with 8.4%. At the same time, says Ms. Valls, there is still a lot of uncertainty about the Argentine economy, which could affect demand for Brazilian exports.

Among the biggest destinations for Brazilian exports, Mexico stood out last year. Exports to Mexico rose by 25.9% in quantity, which offset the 3.2% drop in prices and led to a 21.6% rise in export revenue. Secex data shows that exports to Mexico grew, driven by manufactured goods such as cars and vehicles for transporting goods, whose export values rose by more than 60% in 2023 compared to the previous year. But the soybean effect also appeared in sales to Mexico. The value of soybeans exported to the country rose 87.8% in 2023 compared to 2022. Last year, the three items combined accounted for 28.4% of the value exported by Brazil to Mexico in 2023.

"There are many uncertainties, but this trend in commodity exports is expected to continue for some time, unless we have a very big shock, but we shouldn't have the same variation as last year. Oil production is also coming in now," said Ms. Valls. According to Icomex, the volume of commodities exported in 2023 increased by 14.2% compared to 2022. The quantity exported in the non-commodities group fell by 1.9%.

Bruno Cordeiro Santos, a market analyst with StoneX, says that the outlook is that, driven by the pre-salt, the increase in oil production expected by 2029 will result in a rise in export volumes, since domestic refining capacity is unlikely to increase by the same amount. The consultancy's estimates for oil production are in line with the official ones from the Energy Research Company (EPE), he says. Considering the investments made by Petrobras and private-sector companies, he points out, Brazilian production is expected to reach around 5 million barrels a day by the end of this decade.

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

02/06/2024

FONPLATA TO DOUBLE CAPITAL, ATTRACT PARTNERS

Spain, Colombia, Portugal, and the United Arab Emirates are interested in joining Southern Cone bank, CEO says

Fonplata—a development bank by Brazil, Argentina, Bolivia, Paraguay, and Uruguay—plans to double its authorized capital and seek new partners to leverage its credit portfolio and, as a consequence, expand investments in member countries. Plans for the year also include raising $300 million to $400 million in foreign capital. In Brazil alone, the bank's portfolio totals $1.7 billion, considering approved, existing, and non-existing projects.

In an interview with Valor, CEO Luciana Botafogo said that the publication, in December, of a decree by President Luiz Inácio Lula da Silva enacting changes to the Fonplata's constitutive agreement, as well as Argentina's decision to remain as a partner opened some room for discussing other matters, such as the vote on the capital increase, from the current $3.14 billion to $6.5 billion. The distribution of Fonplata's shares was pending ratification of adjustments to the constitutive agreement by all member countries. Brazil was the last country to enact the change.

The increase in authorized capital will help maintain the pace of credit granting from 2027 onwards. Currently, average growth is around 10% per year. "We plan to continue [at this level], or maybe reduce it a little, to 9.5%, by 2026. The funds we have give us peace of mind for now, but not from 2027 onwards. If we can't increase capital, I would have to reduce the pace of growth," Ms. Botafogo said.

She said the proposal has been submitted to the bank's governors, who are the Financial Planning or Finance ministers of the five countries. "We hope to have a favorable vote in the next ten days to increase capital to $6.5 billion. We will increase the bank's capital by more than a double-fold. That is crucial to increase our lending capacity, our ability to operate in the five countries," she said. Ms. Botafogo is the first woman to take the position at the bank, which turns 50 in June.

Despite fiscal challenges in the region, such as in Argentina and Brazil, the CEO believes the entry of other countries interested in investing in sustainable projects in Latin America can reduce the need for large capital infusion by the bank's current partners in the medium and long terms.

"By distributing [the capital] between the five founding countries and new, non-founding countries, we dilute the demand for capital in countries that are facing fiscal challenges, which are our five countries. Also, over the last ten years, those countries allocated an amount 20% higher than what we are currently proposing. It's about allocating from now on, over the next ten years. So, we are reducing the annual entry amount that each member country can contribute. That helps because it weighs less on the fiscal situation," she said.

According to Ms. Botafogo, several countries have responded positively to the possibility of becoming a member, including Spain, Colombia, Portugal, the United Arab Emirates, and Singapore. "But now we can formally come up with a proposal; until then, those were just approaches," she added. "Our expectation is to have at least two new countries this year and two more next year. The idea is to start increasing capital from 2026 on," she said.

Among the issues that need to be agreed upon by the five current founding countries is how to ensure the focus of investments continues to be in Latin America. Fonplata often works in loans or partnerships to complete small construction works that do not always arouse interest from institutions such as the Inter-American Development Bank (IDB) and the Development Bank of Latin America and the Caribbean (CAF).

To ensure a regional focus, it is being debated, for example, that the votes of the founders have a greater weight than those of other countries. In addition to enabling an increase in resources for investment in construction work, the entry of other countries will also help improve the bank's rating, which in turn helps reduce the cost of international funding.

The bank's CEO also said $150 million to $200 million per year are invested in projects in Brazil. For example, Fonplata has a loan of nearly R$200 million in Maceió (capital of Alagoas state) to mitigate the Braskem's mine risk of collapsing.

Asked about the new administration in Argentina and its impact on the bank, Ms. Botafogo said Argentines are interested in maintaining the relationship with Fonplata. According to her, all approved contracts, involving $600 million to $700 million, are being reviewed at the request of the new Javier Milei's administration.

She said Argentina requested the suspension of funds for construction works that have not been released so that the funds can be allocated to social projects "to guarantee this transition, until the inflation problem is solved." "They [the Argentine government] are currently making fine tuning. We are together with the technical teams, seeing what will be maintained, what will be canceled, which construction work was being carried out and which will not stop," she said.

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

02/07/2024

Record number of job quits amidst hot labor market
Termination at worker's request exceeds 7 million in 2023; most people leave jobs seeking better opportunity

One of the indicators of a tight labor market, termination of job contracts at the request of workers hit a record last year. A total of 7.3 million workers left their jobs at their own request in 2023, compared to 6.8 million in the previous year and 5.6 million in 2021. Official records began in 2004.

According to economists, the increase is a result of a larger number of people seeking jobs that are in alignment with their aspirations, a larger number of young people in the job market, and the methodology of the new General Register of Employed and Unemployed Workers (CAGED). The level of education is also an important variable. Highly-educated workers accounted for the largest number of resignations.

A survey carried out by LCA Consultores shows that Brazil had 21.5 million terminations of job contracts in 2023, 7.3 million of which were at the request of the worker, which is equivalent to 34% of the total. In 2022, there were 6.8 million resignations (33.6%), and in 2021, 5.6 million (33.4%). In 2020, the first year of the COVID-19 pandemic, resignations totaled 3.8 million (27%), in 2019, 3.6 million (24%) and 3.3 million (23%) in 2018.

"The indicator points to a tight [job] market. Most people are quitting their jobs probably because they are able to find positions elsewhere, which indicates an increase in job openings," said Bruno Imaizumi, LCA's economist in charge of the study.

According to him, in addition to the new CAGED methodology, which captures admissions and dismissals in a broader way, the numbers can be explained by the entry of young people into the job market.

"For that group, professional success means having a job aligned with their aspirations. If that is not happening, they [young professionals] keep switching jobs and won't stay in the same company for the rest of their lives," he said.

"Another reason is the COVID-19 crisis, which changed working relationships and brought to light other factors than just salary in the decision to move to a different employer."

Lucas Assis, an economist at Tendências Consultoria, notes that the pandemic changed the dynamics of the job market. "Many workers are possibly reflecting on their career path and prospects, especially those working in low-paying jobs," he points out.

Highly-skilled workers are the ones who quit the most, the LCA survey shows, indicating that the education level has a key weight when negotiating a job position.

The share of resignations compared to the total number of terminations last year reached 32.4% among workers with incomplete secondary education, 33.8% in the group that completed secondary education, 41.8% in the group with a higher education degree. Among those holding a master's degree, that percentage reached 42%, in the group with a PhD, 40.9%, and in those with a complete postgraduate degree, 46.9%.

Public relations specialist Pedro Prata, 40, worked for more than two years at an electricity company. In 2023, he moved to the Ellen MacArthur Foundation, an organization promoting the circular economy.

“On the one hand, the new opportunity would allow me to work again with public policies and, thus, expand the impact of my work on the social, economic, and environmental fronts. On the other hand, it would give me greater autonomy, flexibility, and a work environment of trust,” he said. Mr. Prata notes that, in general, the pandemic has highlighted old problems in some work environments. “Disrespectful relationships, overwhelming volume of tasks, excessive controls, little freedom to express opinions. I have the feeling that, when working from home, many people realized how bad the environment in their offices was,” he said, based on his own experience.

“I think it's important to be in an organization that combines the satisfaction of waking up to work with remuneration that is consistent with your delivery. It makes no sense to have job stability and emotional instability. Furthermore, it's not about staying longer in the same place.”

Engineer Carolina Reis, 42, has similar opinion. “I don't see staying in a single job for a long time as crucial. I value being in positions that resonate with my aspirations and that offer a healthy balance of personal and professional life,” she said.

Ms. Reis, who worked for 14 years as a business manager at Continental, is now in the middle of a career transition process. After three years and four months at Amazon, as an expansion and operations manager, she is now moving to Cummins, where she will serve as an executive sales manager. “The opportunity at Cummins is more aligned with my current career aspirations and personal skills,” she said. “[But] I am willing to reconsider my position if the work-life balance I seek is not achieved.”

Mr. Imaizumi's survey shows that younger people were behind most resignations from formal jobs last year. Among young people aged 18 to 24, 39.5% of total terminations were at the request of the worker. That share decreases to 36.5% in the age group between 25 and 29 years old, and to 33.1% among those aged 30 to 39 years old. In the range between 40 and 49 years old, it falls to 29.7%. And even further among people aged 50 to 64 and over 65, to 24.7%.

Some of the activities that had a proportion of resignations higher than the average in 2023 were international bodies, human health and social services, education, accommodation and food, housekeeping services, financial services, car sales and repair, information and communications.

Among the regions with higher job quitting were the South (41.3%), Central-West (38%) and Southeast (33.7%). Among the states with the highest share are Santa Catarina (45.2%), Mato Grosso do Sul (43.8%), Mato Grosso (41.7%), Paraná (40.9%), and Rondônia (38.6%). The states of Espírito Santo, Minas Gerais, and Rio de Janeiro were below the national average (34%). The largest share of resignations is in regions and states that show better economic activity.

Hélio Zylberstajn, a senior professor at the Economics and Business School of the University of São Paulo (FEA-USP) and coordinator of the Salary Survey at the Economic Research Institute Foundation (FIPE), points out that the scenario is more favorable for those who quit than for those starting a new job.

One way to measure that is the salary pressure indicator, the ratio between the average salary of those who enter and the average salary of those who leave a job. For example, when the salary of someone entering a new job is R$900, and those who is leaving earn R$1,000, the salary pressure is 0.9. If someone who enters earns R$1,000 and someone who leaves earns the same, the salary pressure rises to 1.

A survey carried out by FIPE underscores the idea that the education level is directly related to mobility in the job market. The study shows that salary pressure for those with a higher education degree went up from 0.95 in 2022 to 0.98 in 2023. For those who hold a master's degree, it went from 1.01 to 1.02, and for those with a PhD, from 1 to 1.04.

"The salary pressure for who resigned in 2023 is greater than in 2022. Those who left a job last year are getting better positions than in 2022," Mr. Zylberstajn said. "The numbers reveal that there are opportunities in the job market, and the people who resigned in 2023 did better than in 2022."

Despite the recent increase in resignations, the numbers are expected to decrease over the year.

"For 2024, the job market should slow down, in line with the loss of momentum in economic activity," Mr. Assis points out. Tendências estimates a 1.5% increase in GDP this year. "The more intense acceleration of the labor force, compared to employment, should increase the unemployment rate. For the short term, the share of resignations is expected to fall."

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

02/12/2024

EL NIÑO AGAIN LOWERS GRAIN HARVEST FORECAST
Grain production is now expected to total 299.7 million tonnes, 20 million tonnes less than in the 2022/23 cycle

The weather didn't help, and as producers are already seeing in the fields, the 2023/24 grain crop will be smaller than originally expected. On Thursday, the National Supply Company (CONAB) again lowered its production estimate, mainly due to losses in soybeans and corn. The grain harvest is now expected to total 299.7 million tonnes, 2.2% less than the January forecast and 6.3% less than the 2022/23 harvest. That's 20 million tonnes less between one crop and the next.

"The delay in the start of the rains in the Central-West, Southeast, and Matopiba regions, followed by irregular and poorly distributed rains, with records of summer rains lasting more than 20 days, as well as high temperatures, are having a negative impact on crop performance," said CONAB in its 5th Crop Survey report.

The lack of rain and the high temperatures due to the El Niño climate pattern have damaged the soybean and corn crops of the first harvest since planting. Soybean planting has been delayed, which should also affect the second corn crop, according to CONAB.

Soybean production, the flagship of Brazil's agribusiness, is now expected to be 149.4 million tonnes, 3.4% less than the previous harvest. Compared to the initial forecast of 162 million tonnes, this represents a 7.8% decline. Production of less than 150 million tonnes had already been expected by market analysts.

For corn, CONAB estimated total production at 113.7 million tonnes, 13.8% less than in the 2022/23 cycle. This figure includes three crops. "The first crop, which accounts for 20.8% of total production, faced adverse situations such as high rainfall in the south of the country and low rainfall in the Central West, accompanied by high temperatures," CONAB noted.

The bean crop estimate fell slightly, but was still close to 3 million tonnes, taking into account the three harvests. In rice, although El Niño initially affected the crop, no losses are expected for the time being. CONAB estimated production at 10.8 million tonnes, 7.6% higher than the 2022/23 crop.

CONAB's survey was not all negative. The country is expected to see a new record in cotton production, with 3.3 million tonnes of lint. According to the agency, the price and marketing prospects have stimulated an increase in plantings, which grew by 12.8% over the 2022/23 crop.

On Thursday, CONAB also released its first estimate for the winter crop, forecasting a harvest of 10.2 million tonnes of wheat. This figure is 26% higher than the 2022/23 crop. Planting begins this month in the Central-West and will gain momentum in mid-April in Paraná and in May in Rio Grande do Sul, states that account for 82.7% of the country's wheat production.

With the updated soybean production estimate, CONAB also lowered its export forecast for this crop by 4.29 million tonnes to 94.16 million. Corn shipments were also lowered by 3 million tonnes. As a result, they should total 32 million tonnes.

On Thursday, the Brazilian Institute of Geography and Statistics (IBGE) also released a lower estimate for the 2024 grain harvest, but the drop wasn't as significant as CONAB's. The agency lowered its estimate by 1% to 94.5 million tonnes. The agency lowered its estimate by 1% to 303.4 million tonnes. Compared to last season, this represents a decline of 3.8%.

Contrary to Brazilian estimates, the U.S. Department of Agriculture (USDA) on Thursday projected a still robust soybean crop in Brazil for the 2023/24 crop year in its monthly World Agricultural Supply and Demand Estimates report. The agency's forecast calls for production of 156 million tonnes, 1 million tonnes less than the January forecast.

Analysts had expected a more aggressive cut from the USDA of at least 3 million tonnes. Nonetheless, March soybean contracts on the Chicago exchange closed up a modest 0.38% at $11.9350 per bushel.

For Ronaldo Fernandes, an analyst at Royal Rural, the USDA failed to take into account the fact that 2023 was the hottest year on record and that soybeans developed under such conditions. "There is no productivity or acreage to justify a 156-million-tonne crop. Given that, the market knows that soybean production is much more likely to be below 150 million than above that volume," he said.

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

02/13/2024

JANUARY HIGHER-THAN-EXPECTED INFLATION DOESN'T CHANGE OUTLOOK
Rise in service prices gains attention but shouldn't affect monetary easing

Brazil's official inflation, measured by the Broad National Consumer Price Index (IPCA), was higher than analysts expected in January but did not change the scenario of prices slowing down this year.

The indicator opened 2024 with a rise of 0.42%, according to the Brazilian Institute of Geography and Statistics (IBGE). The rate exceeded the median captured by Valor Data, which had predicted a rise of 0.36%. In January 2023, the rate was 0.53%.

The increase surprised some economists, who expressed concerns about the possibility of the heated labor market pressuring inflation in the services sector. However, experts emphasize that the result will not prompt revisions to estimates that suggest the continuation of the disinflationary process. In the 12 months leading to January, the IPCA increased by 4.51%, compared to 4.62% in December.

"The magnitude of the [monthly] increase is out of line with expectations and can be alarming if you look at the composition without considering seasonality," said Carla Argenta, chief economist at CM Capital.

She cites the food and beverage inflation of 1.38% as an example. Although this was the highest increase for this group since April 2022 (2.06%), the figure was less impacted than expected by the El Niño weather pattern. "El Niño's effect is on a subgroup that primarily includes rice and beans, as well as fruits and vegetables. But while it has driven up food inflation at home [1.81%], it doesn't seem to be a concern for the coming months. The effects were mostly felt last year."

Sicredi's chief economist, André Nunes de Nunes, reiterated that the impact of climatic events in November and December 2023 may have begun to dissipate, favoring the January 2024 result of the food group—the 1.38% increase was below the projection of 1.55%. Food at home was also below the expectations of Sicredi's economic team, which had anticipated a rise of 1.99%.

Laiz Carvalho, an economist for Brazil at BNP Paribas, points out that the higher-than-expected IPCA in January doesn't change the outlook. "We still think that this year's IPCA will close at 3.5%. It will be largely driven by goods and food at home in the next few observations. We're already seeing a reversal of these increases in other indices."

The 0.65% drop in transportation costs also helped economists maintain the scenario. After successive rises since September 2023, the price of airline tickets fell by 15.22%. Fuel prices also decreased by 0.39% in January compared to December.

However, the main point of attention for the disinflationary process, according to Itaú Unibanco economist Luciana Rabelo, is services inflation, especially those most pressured by labor adjustments. Core services inflation rose by 0.76%.

"It's a little worrying, especially if the services sector comes under more pressure over the year due to the heated labor market," she said. On the other hand, she comments that the rise seen in January "was already accounted for" and does not impact the bank's projection that the IPCA will be 3.6% at the end of 2024.

Julio Hegedus, chief economist at Mirae Asset, also points to services inflation as an element that should be closely monitored in the upcoming measurements. "We have to keep an eye on the food and drink, personal expenses, and services groups. The economy is heating up in low-income services. It's going to be an impact factor," he said. "There may be some demand pressure over the year, not least because the diffusion data remains high." The diffusion index, which measures the proportion of goods and activities that have increased in price, stayed at 65.3% last month, the same as in December.

Despite the warning, there is a consensus among economists that none of the data released Thursday by the IBGE will create obstacles to the continuation of the interest rate cut cycle by the Central Bank.

"The result for underlying services in January is not something to worry about. We need to see if the movement will be repeated over the next few months," said the chief economist at CM Capital. "At the moment, it has absolutely nothing to do with monetary policy. Inflationary inertia is proving to be increasingly smaller, and the impact on adjustments to regulated prices has also been lower. What made it different were seasonal issues that should be reversed soon," said Ms. Argenta, who expects successive cuts of 50 basis points in the Selic policy rate until the interest rate falls to 8.5% by the end of 2024.

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

02/16/2024

FOREIGN INVESTORS TAKE LARGER SHARE IN M&A IN BRAZIL
Local investors expected to gain ground in 2024 amid capital market reaction

The share of foreign capital in mergers and acquisitions (M&A) in Brazil increased last year, reaching the highest percentage in at least seven years.

In 2023, cross-border transactions accounted for 50.1% of a total of 371 operations, according to a survey carried out by Seneca Evercore for Valor. In the second half of the year alone, the share was 54.5%—out of a total of 156 operations—the highest half-yearly proportion since 2016. According to the study, since 2014 there have been 5,061 M&A deals in Brazil, 47% of which involved foreign buyers.

Investment bankers point out that the larger share reflects an improvement in Brazil's risk perception, especially when compared to its emerging peers, which has also resulted in a greater number of mandates in the first weeks this year.

The trend should continue in 2024, although Brazilian buyers are also expected to show more strength this year, driven by a more functional capital market and the return of initial public offerings.

"We believe that, based on what we observe in the market and our own pipeline, the first half of 2024 will be even stronger than the last half of 2023 and should reveal even greater predominance of international investors," said Daniel Wainstein, a partner at Seneca Evercore.

According to the executive, the increased participation of foreigners in M&A deals in the country is a consequence of the improvement in Brazil's risk perception after the fall seen last year. "That is combined with a relatively low unemployment rate, inflation under control so far, a decrease in Brazilian interest rates and a downward trend in the U.S. likewise, and Ibovespa [Brazil's benchmark stock index] at record highs," he notes.

According to Dealogic, a consultancy that tracks financial market data worldwide, the same trend is observed in an analysis by financial volume. Last year, of a total of $37.9 billion in transactions, $17.8 billion came from cross-border operations, or some 47%, the largest share over the recent years.

The strength observed last year was driven by large-scale operations, such as the sale of shares of Vale's base-metals unit, AESOP, and The Body Shop, the last two carried out by Natura as part of its business restructuring. In all three cases, the operations occurred largely abroad, but are included in the local M&A volume as they involve domestic companies.

The same trend has been observed in the investment bank sector, with foreign investors actively seeking assets in Brazil. "At the beginning of the year, we saw foreign investors interested in learning about transactions in Brazil, including the Arab and Chinese. But we have mandates at both ends, not only from foreigners wanting to invest in Brazil, but also from foreign companies leaving the country due to strategic decision," said Leonardo Cabral, head of Santander's investment bank in Brazil.

Fabio Medeiros, the head of Morgan Stanley's investment bank in the country, points out that the participation of foreign investors last year is even clearer in transactions worth more than $100 million. In this section, 70% of the total were cross-border transactions. "It is the highest number since official records began, and the same as in 2016," he said. According to the executive, that can be explained by Brazil's attractiveness compared to its emerging peers. "Each country has its own challenges. We have our own, but they don't scare foreigners so much."

For this year, Mr. Medeiros believes that local transactions will gain traction again and will share the M&A pie with the foreign capital. Such expectation is also based on the forecast of improvement in the capital market in Brazil, with the expected return of IPOs in the local market. IPOs help fuel companies' cash, boosting their interest in acquisitions.

Diogo Aragão, Brazil head of M&A at Bank of America, says the capital market is more functional this year, not only for equity, but also for local and international debt, which helps take operations off the drawing board. "The scenario has made companies feel more comfortable in starting a transaction," he notes. According to him, new transactions are arriving at the negotiation table, while others, previously on hold, are taking up again.

"When you look abroad, Brazil is well positioned. Falling interest rates and stability in the exchange rate and in the political scenario create conditions for investors to take the country more seriously," the BofA executive said.

Roderick Greenlees, global head of investment banking at Itaú BBA, says that, in general, operations involving foreign capital are large and have a long-term horizon. According to him, several conversations are underway, with new mandates at the beginning of the year, including the participation of foreign investors.

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

02/16/2024

ONE IN FOUR COMPANIES CAN'T COVER DEBTS WITH CASH GENERATION
Falling interest rates, while helpful, are not yet enough to significantly improve companies' financial situation, but outlook is expected to improve this year

Even with the onset of the monetary easing cycle, the country has yet to witness a significant improvement in the situation of companies, which are struggling with declining sales and gross profit margins. A study by the Center of Capital Market Studies (Cemec-Fipe) reveals that the number of publicly traded companies unable to cover their financial expenses with their cash generation is high, and the indicators are likely to deteriorate in the coming months.

That is the result of a period of still high-interest rates. However, the survey indicates that spending on financial charges shows a "clear downward trend," while the drop in profits is less severe. According to Carlos Antonio Rocca, coordinator of Cemec-Fipe, the scenario should begin to improve this year.

The current picture presented by the study is challenging: the default rate for businesses remained high, at 3.58% in November last year, more than double the rate at the end of 2020 (1.45%). Consultancies specializing in debt restructuring report that demand from companies seeking renegotiation with creditors, a buyer or partner, or court-supervised reorganization has increased significantly. Experts named construction, retail, and agribusiness among the most problematic sectors.

"The number of inquiries we've been receiving from companies with debts of more than R$200 million has risen considerably," stated Ricardo Knoepfelmacher, founder of RK Partners, a firm specializing in restructuring. A survey by the consultancy indicates that, on average, working capital credit rates have decreased by three percentage points from January 2023 to last month, from 30.3% to 27.3% per year, indicating still quite high levels. Concurrently, the capital market remains very selective following the cases of Americanas and Light at the beginning of last year.

In accordance with the scenario indicated by Cemec, the RK study shows that among publicly traded companies, 27% have generated less profit than what they need to pay in debt this year—the highest percentage in the consultancy's history, which started in the first quarter of 2019. "It takes 18 to 24 months for the decrease in interest rates to affect companies' accounts. So 2024 is still going to be a tough year," stated Mr. Knoepfelmacher. He notes that 15% of these companies have leverage exceeding six times their cash generation. "More than three times is already considered a very high level with the Selic at its current level."

Ricardo Jacomassi, partner and chief economist at TCP Partners, observes that companies' cash flow remains very tight. "Costs have risen with the increase in the Selic rate and haven't fallen yet. At the same time, sales performance hasn't improved enough for cash generation to cover debts," he explained. To alter this scenario, he suggests, revenues would need to return to their 2019 levels. A report by the company, which monitors 60 sectors, forecasts a 6% rise in requests for court-supervised recovery this year compared to 2023, when, according to data from Serasa Experian, reorganization filings surged by 68.7% to 1,405, the highest number since 2020.

Mr. Knoepfelmacher, however, points out that the indicators for court-supervised reorganization filings are not fully representative, considering the country has 21 million companies, almost 7 million of which have at least one overdue debt. "In a year and a half, many won't be able to pay and will need to renegotiate their debts. Court-supervised reorganization is a bitter pill to swallow, with high costs for lawyers and administrators. We've handled 128 restructurings in recent years, and only 29 have been court-supervised reorganization."

Mr. Jacomassi mentions that there has been an increased demand at the start of the year from companies seeking a buyer or partner to inject capital, in market terminology, the so-called "distressed M&A," a situation also observed by Salvatore Milanese, founding partner of Pantalica Partners and an expert in company recovery and restructuring. He recalls that he used to prepare an average of three to four proposals a week. Since January, this number has escalated to eight to 10 a week. The demand is for diagnoses to extend debt and the pursuit of a merger or acquisition. Judicial recovery, he asserts, is the last resort. "In these cases, the sale of all or part of the company is not at the price the controlling shareholders would prefer, but it prevents the disastrous outcome of court-supervised reorganization."

Mr. Milanese includes the call center sector in the list of sectors to be concerned. Mr. Jacomassi adds the hospital health sector, described as "highly leveraged and with tight cash flow," along with the printing industry (label printing, etc.). He notes that agribusiness suffered due to the drop in international commodity prices, while raw materials had already been purchased at higher costs. "Improvement should only begin in November. We're not optimistic for 2024."

The study from Cemec reveals that after reaching its most recent high of 23% in the fourth quarter of 2021, the growth rate of financial expenses varied by only 0.1% in the 12 months ending in the third quarter of 2023. This calculation excludes Petrobras, Eletrobras, and Vale, as their size would skew the figures.

Simultaneously, the decline in cash generation is less severe: from -5.2% in the first quarter of last year to -1.7% in the third quarter. However, the gross profit margin (24.8%) was at its lowest since the 12 months ending in the first quarter of 2016, when it hit the same level.

Reflecting such a situation, the so-called financial expense coverage ratio has almost stopped declining, hovering around 1.8 for the 12 months up to the second and third quarters of 2023. This index reflects a company's ability to cover the interest on its debts with cash generation and is calculated from the ratio of EBITDA to financial expenses. The higher this ratio, the more comfortable the company's situation. Mr. Rocca clarifies that when it falls below 1, it indicates financial difficulties.

In 2019, around 11% of large and medium-sized companies (with revenues between R$90 million and R$300 million) had this index below 1, according to the Cemec report, which encompasses 337 companies. In the first quarter of 2023, amid high interest rates and a credit crunch, these percentages rose to 19.2% and 16.9%, respectively.

By the third quarter, following improvements in capital market conditions and the beginning of the monetary easing, the figure dropped to 14.5% among large companies, typically the first to show signs of improvement, indicating a potential return to 2020 levels. However, among medium-sized companies, the proportion of those unable to cover their financial expenses with cash generation remained high, at 20.7%.

"The expectation is that this index will continue to decline among large companies, but we have to wait and see, as there is considerable variation between sectors. Services, for instance, are still thriving, but industry and industrial retail continue to face challenges, unable to increase their margins," notes the report.

Mr. Rocca anticipates a recovery in the availability of bank credit and debt securities in the capital market, coupled with expectations of relative stability in commodity prices and a decrease in financing costs from domestic and international sources. This trajectory is expected to continue with projections of a decrease in the Selic rate.

"We're going to end the year with much lower interest rates and, by 2025, rates around 8%. This factor directly impacts a company's results and is significant for cash generation," said Daniel Lombardi, managing partner at G5 Partners. He notes that many companies have already restructured to reduce interest rates, while others are in the process of doing so this year. "The most uncertain factor is demand. We saw signs at the end of last year that things weren't going well, with lower-than-expected sales on Black Friday and Christmas. However, demand should improve over the year," Mr. Lombardi added.

Phillip de Macedo, partner and private credit portfolio manager, emphasizes that in this recovery scenario, the trend of turning to the capital markets is irreversible and increasing. "Last year was marked by credit events, and we started more cautiously. The credit scarcity eased over the year, and the crisis left clear lessons. Now, it's a matter of calibration."

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

02/19/2024

LULA COMPARES GAZA OPERATION TO HOLOCAUST, SPARKS CRISIS WITH ISRAEL
Netanyahu calls president's remarks "shameful and serious" and announces recall of Brazilian ambassador

President Lula sparked a diplomatic crisis with Israel on Sunday by comparing Israel's actions in Gaza to those of Adolf Hitler against the Jews and calling the attacks on Palestinians genocide. In response, Israeli Prime Minister Binyamin Netanyahu called Mr. Lula's words "shameful and serious" and said he would recall Brazil's ambassador to the country for a reprimand scheduled for this Monday.

"I wonder what the size of these people's political conscience is, and what the size of their hearts of solidarity is, that they can't see that what is happening in Gaza is not a war, but a genocide," Mr. Lula said at a press conference in Addis Ababa, Ethiopia, where he was attending the African Union summit. "What is happening in

Gaza and to the Palestinian people does not exist at any other time in history. In fact, it existed: when Hitler decided to kill the Jews."

The president had already raised the tone of his criticism of Israel since he managed to negotiate the rescue of Brazilians prevented from leaving Gaza. Palestinian officials estimate that nearly 29,000 people were killed in Gaza by Israel in response to Hamas attacks on October 7.

Mr. Netanyahu immediately pushed back the remarks, saying that comparing Israel to Nazi Holocaust and to Hitler "cross a red line," he wrote on his X account "Israel is fighting for its defense and to guarantee its future."

Mr. Lula's remarks were also criticized by Israeli President Isaac Herzog and Chancellor Israel Katz. "Accusing Israel of committing a holocaust is outrageous and abhorrent," said Defense Minister Yoav Gallant.

Mr. Katz said afterwards that "President Lula is persona non grata in Israel until he takes it back."

Mr. Gallant also accused Brazil's president of defending Hamas. According to the Al Jazeera network, the terrorist group said it "appreciated" Mr. Lula's remarks comparing the Gaza conflict to the Holocaust, calling the comments an "accurate description" of what the Palestinians face.

In light of the announcement that Brazil's ambassador to Israel, Frederico Meyer, has been summoned, the internal orientation in the Foreign Affairs Ministry is to wait and avoid aggravating the crisis. The idea is to listen to the diplomat's report on the meeting with Mr. Netanyahu, scheduled for this Monday, and to assess the next steps.

For Oliver Stuenkel, professor of international relations at the Getulio Vargas Foundation (FGV), Mr. Lula's comparison goes beyond criticizing Mr. Netanyahu's government and should negatively affect his image in the eyes of the West.

Mr. Lula's comments are attracting attention abroad, Mr. Stuenkel said, because the comparison with the Holocaust "goes far beyond" criticizing Israel, accusing it of violating international law and even accusing it of committing genocide.

"After all, the Holocaust, unprecedented in human history, is very different from other genocides because Germany developed an industrial scale strategy to exterminate 6 million Jews."

In the West, the comment will be seen by many as "inflammatory and anti-Semitic" and will negatively affect the Brazilian president's image, Mr. Stuenkel said.

"In the Global South, however, where criticism of Israel is more common in the context of the Gaza war, the comparison may be seen as an exaggeration, but it probably shouldn't be viewed with the same concern as in the West," he added.

Regarding the summoning of the Brazilian ambassador to Israel for talks, Mr. Stuenkel said that this is a gesture used in diplomacy to express annoyance, but added that others could be more serious, such as recalling the Israeli ambassador to Brasília for consultations.

On the domestic front, the opposition and the Brazil-Israel parliamentary front also reacted to Mr. Lula's remarks. The leader of the Progressive Party (PP) in the Senate, Ciro Nogueira, former chief of staff in the Bolsonaro administration, called Mr. Lula's statements a disgrace.

"President Lula, comparing the Holocaust to Israel's military response to the terrorist attacks it has suffered is shameful," Mr. Nogueira posted on social media. "The Holocaust is incomparable and can never be trivialized. On behalf of Brazilians, we apologize to the world and all Jews," he added.

An official statement from the Brazil-Israel Parliamentary Group condemned the president's remarks as "biased and dishonest." "Inconsistent statements like these and others in recent days show historical ignorance and a lack of balance in the presidency of our country," the group said.

The president of the Workers' Party, Congresswoman Gleisi Hoffmann, said that Mr. Lula's statement was "directed at the extreme right-wing government of Israel, and not at the Jews or the Israeli people," denouncing Mr. Netanyahu's reaction as "manipulation."

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

19/02/2024

BRAZIL RECEIVES BLINKEN, LAVROV FOR G20 AMID HEIGHTENED SECURITY
Foreign ministers' meeting marks start of ministerial conferences under Brazilian presidency

The Brazilian presidency of the G20 begins this week with ministerial meetings, the most important moment before the heads of state's summit scheduled for November. On Wednesday and Thursday, Rio de Janeiro's Marina da Glória will host the foreign ministers of the world's largest economies. Next week, São Paulo will host a meeting of G20 finance ministers and central bank governors.

As Valor reported in January, the main topics on the foreign ministers' agenda will be international conflicts, such as the wars in Ukraine and Gaza, and the reform of global governance, which is one of the three priorities of Brazil's G20 presidency. The other two axes throughout the year are the fights against hunger, inequality, and climate change.

President Lula, who was in Africa last week, delivered a message on the two key aspects of this week's meeting in Rio. "There must be a new geopolitics at the UN. The veto power of countries must be abolished, and the members of the Security Council must be pacifist actors, not war-mongering actors," he said.

U.S. Secretary of State Antony Blinken and Russian Foreign Minister Sergei Lavrov have confirmed their presence in Rio. Relations between the United States and Russia, which have been strained by the war in Ukraine, which turns two years on Saturday, were further inflamed last week by the death of Vladimir Putin's main opponent, Alexei Navalny, in an Arctic Circle jail. U.S. President Joe Biden said there was "no doubt" about Mr. Putin's responsibility in the episode.

In Rio, Mr. Lavrov will hold a meeting with Brazilian Foreign Minister Mauro Vieira. Along with the representatives of France, Spain, Indonesia, and Mexico, the Russian is considered one of the "most likely" on the Brazilian minister's list of bilateral appointments, according to Itamaraty sources.

Mr. Blinken, meanwhile, will visit Mr. Lula in Brasília before landing in Rio, where, according to the U.S. government, he will discuss the partnership "for workers' rights, cooperation in the transition to clean energy, and the celebration of the bicentennial of diplomatic relations between Brazil and the United States."

Only four countries will not send their top diplomat. China—second only to the U.S. in terms of GDP—will not send Wang Yi, who was in Brazil a few weeks ago on a schedule with Foreign Minister Mauro Vieira. India's Foreign minister, in turn, will participate in the Raisina Dialogue—a local conference on geopolitics. Italy and Australia, countries where domestic politics have taken over the ministers' agenda, are not sending a foreign minister or equivalent.

The logistics of the two-day meeting in Rio is complex. A hotel in Copacabana will be closed to accommodate 11 of the approximately 40 delegations. In addition to the official members of the group, countries, and international organizations have been invited, such as the members of Mercosur and the UN's Unesco and FAO.

At Marina da Glória, where the ministers will meet, eight bilateral conference rooms have been set up, as well as a chamber for diplomatic delegates to follow the video talks, and a press area for up to 400 media professionals. Part of the material used in the construction will be donated to Rio's public schools after the event. The bilateral meetings will also take place downtown at the Itamaraty Palace, which was the headquarters of the Foreign Affairs Ministry between 1899 and 1970 until it was transferred to the new capital Brasília.

Another important meeting on Thursday will be the Ibas (India-Brazil-South Africa Dialogue Forum). These countries are part of the BRICS and will take turns chairing the G20: the Indians last year, the Brazilians this year, and the South Africans after Brazil.

As is customary at G20 ministerial meetings, there will be no document issued in Rio with the guidelines resulting from the talks. The tendency is for Mauro Vieira to make a statement at the end. Against the backdrop of global turbulence, especially with Russia, there will also be no official photo of the foreign ministers at the end of the meetings.

The mayor of Rio, Eduardo Paes, and Mauro Vieira will host a dinner for the foreign ministers at the Palácio da Cidade, the city hall, on Wednesday. In terms of security, in addition to the Federal Police, there will be 200 Federal Highway Police escorts and a special Military Police program “that will extend to the neighborhoods of Copacabana, Botafogo, and Glória, as well as the main access routes to the venue,” according to the state government.

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

02/21/2024

AT G20, BRAZIL ADVOCATES UN REFORMS AMID CONFLICTS

Foreign ministers begin two-day ministerial meeting under Brazilian presidency of the group on Wednesday

Despite acknowledging divergences among G20 countries regarding the format of reforms at the United Nations, the Brazilian presidency of the group believes there is consensus regarding the need for a stronger UN to address international conflicts.

This analysis was made on Tuesday (20) by the Secretary of Economic and Financial Affairs of the Brazilian Ministry of Foreign Affairs, Maurício Lyrio, during the presentation of the agenda for the G20 foreign ministers' meeting, which begins this Wednesday (21) in Rio de Janeiro.

The meeting is the first at the ministerial level under Brazil's presidency of the group and will extend until Thursday (22). According to Mr. Lyrio, discussions will focus on ongoing international conflicts, such as the war in Ukraine and the conflicts in Gaza, as well as reforms in global governance, as previously reported by Valor in January.

Mr. Lyrio serves as Brazil's sherpa in the G20, a term that designates a country's representative at the international summit. The coordinator assesses that the current level of international conflicts creates unprecedented pressure on the composition and format of multilateral organizations such as the UN.

“There is consensus on the need for a strong UN capable of facing global challenges. The final form of this update faces divergences, but the urgency we have today, with the level of conflicts returning to Cold War standards, generates pressure and urgency on the topic that did not exist before,” he said.

Mr. Lyrio emphasized that, in Brazil's view, the UN needs to undergo effective reform to become a structural and effective instrument in conflict prevention.

“The Brazilian government's defense of peace applies to all conflicts. But one thing is to work for peace, another is to have a structural action. [Today] We are putting out fires,” he said.

The statements were made amid escalating diplomatic tension between Brazil and Israel after President Lula compared the situation in the Gaza Strip to the Holocaust, prompting an immediate reaction from the Israeli government.

Asked whether President Lula's statements could hinder Brazil's role as a mediator in international conflicts, the government representative denied: “The peace call that the president has been making from the beginning is absolutely crucial.”

He even mentioned that the resolution for a humanitarian ceasefire in the conflict, presented at the UN Security Council, is a priority for the Brazilian government. When informed by reporters that the proposal had been vetoed, he expressed dissatisfaction. “I imagine there was a veto exercised,” he observed. The United States vetoed the proposition on Tuesday, for the third time since the beginning of the war between Israel and Hamas.

The meetings of the foreign ministers are taking place at Marina da Glória, in the southern zone of Rio. The discussions involve the 19 countries that are part of the group of the world’s major economies, the European Union, and the African Union, as well as countries and international organizations invited by Brazil. The Brazilian presidency of the G20 will hold a second meeting of foreign ministers in September, parallel to the opening of the UN General Assembly in New York.

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

22/02/2024

PETROBRAS INITIATES TRIALS FOR BREAKTHROUGH DECARBONIZATION TECHNOLOGY
A $1.5bn investment fuels launch of Hisep pilot project

Petrobras revealed on Tuesday that it has initiated trials for an innovative technology designed to separate oil from CO2-rich gas directly on the seabed. This technology, known as Hisep, is a creation of the Petrobras Research Center (Cenpes) and represents a significant advancement in the field. The development is supported by a substantial investment of $1.7 billion from the consortium responsible for the Libra block in the pre-salt Santos Basin. This consortium includes Petrobras itself, along with industry giants Shell, Total, and the state-owned Pre-Sal Petróleo (PPSA), as well as Chinese entities CNPC and CNOOC.

Out of the total investment, $1.5 billion fuels the launch of the Hisep pilot project. The remaining $200 million is earmarked for the establishment of the Brazilian Pre-Salt Technology Center (CTPB), a collaborative effort with the Federal University of Itajubá (Unifei), located in the state of Minas Gerais.

The Hisep technology is set to undergo pilot testing in the Mero 3 field within the pre-salt Santos Basin. Following this testing phase, Petrobras anticipates that the technology will be operational by 2028. Positioned within the Libra area, the Mero field is recognized as the third-largest in the pre-salt region.

Petrobras’s Engineering Director, Carlos Travassos, highlighted the significant advantages Hisep technology is set to bring to the company’s operations. With its implementation, Petrobras expects not only to streamline efficiency but also to unlock substantial value. The innovative technology is projected to slash the weight of platforms by an impressive 65%, leading to a consequential reduction in the number of personnel required onboard. Furthermore, the potential for commercializing this technology to other entities in the oil sector presents an additional revenue stream.

“By integrating Hisep, we anticipate a transformation in the layout of the Floating Production, Storage, and Offloading (FPSO) units, particularly the ‘topside’ or upper part of the FPSO, which can reduce the cost of the platforms. This technology allows for a significant portion of the processing plant to be relocated from the FPSO to the seabed,” says Mr. Travassos. The FPSO platform produces, processes, stores, and drains oil.

In a strategic move to advance the Hisep project, Petrobras entered into an agreement with FMC Technologies do Brasil, a TechnipFMC subsidiary, in January. This partnership is tasked with developing the necessary infrastructure for Hisep. The initiative will kick off with the FPSO Marechal Duque de Caxias, which is designed to process up to 180,000 barrels of oil and 12 million cubic meters of gas daily.

Jean-Paul Prates, CEO of Petrobras, emphasized the environmental and operational benefits of their latest technological advancement, Hisep. He said that the primary advantage of this innovation lies in its capacity to mitigate the environmental impact of polluting gases at the source. “Decarbonization is crucial for the sustainability of oil extraction activities, enabling us to continue utilizing hydrocarbons,” Mr. Prates said. After separation, Hisep allows for the immediate reinjection of these gases back into the subsea wells.

"In the near future, Hisep will significantly reduce the need for personnel in high-risk areas of the platform, mirroring our successful efforts to eliminate diving operations by reallocating staff to safer roles. This strategic move bolsters our production efficiency," he said.

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

02/23/2024

ANTITRUST REGULATOR LIKELY TO RELEASE PETROBRAS FROM SELLING REFINERIES
Case may be brought before agency for deliberation at end of March

The antitrust regulator CADE is likely to accept Petrobras's request and release the state-owned company from the obligation to sell refineries and remaining assets in the natural gas distribution and transportation market, sources involved in the negotiations say. The sales are foreseen in the agreements signed in 2019, which aim to reduce the company's participation in the two sectors. The CADE is expected to impose "behavioral remedies," which are lighter restrictions than the sale of assets. The case could come before the agency at the end of March.

At the end of 2023, the current management of Petrobras requested a review of the two Terms of Cessation Commitment (TCC) signed in 2019, the first year of the Bolsonaro administration. The state-owned company had committed to sell eight refineries to open up the refining market and three gas pipeline networks. The divestments were part of a broad government program to privatize the company.

Petrobras has sold four refineries and two gas pipelines ever since, after repeatedly requesting postponements on the grounds that it couldn't find interested buyers. Petrobras's current CEO, Jean Paul Prates, who has been a critic of the operation since his days as a senator and was involved in the negotiations with the antitrust regulator, asked for a review late last year.

Valor has learned that the CADE tends to replace this structural divestiture measure, without major disagreements, with behavioral remedies that would include, for example, non-discrimination against competitors, a guarantee of market prices, and others.

They are also discussing whether governance measures should be adopted to ensure independent action in the event that the third gas unit is not divested. The gas negotiations are more advanced than the refinery negotiations, but the idea is to analyze the two cases together for approval by the board members. This is the general dynamic of TCCs—they are negotiated by the General Superintendence and ratified by the agency.

Sectors of the government also believe that, with the majority of the agency recently appointed by President Lula, the tendency is for the path for Petrobras to be easier—four members took office earlier this year. Depending on the terms of the review, experts say there could be legal uncertainty in the sector.

There is still no finalized proposal. Sources involved in the negotiation process say that contacts with the CADE have been very dynamic, with many "comings and goings" and the acceptance of proposals from the state-owned company itself. However, the talks are well advanced. At the very least, Petrobras could still be fined if the council deems it has violated the agreements, which is not on the table at the moment.

Pedro Rodrigues, head of the Brazilian Center for Infrastructure (CBIE), told Valor that releasing the company from the commitment to sell refineries could create legal uncertainty, both for the buyers of the four sold refineries and for possible players looking to enter Brazil. "There was a lack of enforcement of the agreements signed by the CADE. As a result, there was uncertainty for investors who might have been interested in the assets," he said. "The change in direction of Petrobras's policy is legitimate. The questionable point is a government agency like the CADE changing an agreement that gave security both to agents who had already invested and to future investors," he said.

The TCCs were signed to conclude an investigation opened by the antitrust watchdog in 2018 into the company's activities in these markets. In refining, the competition defense agency received a complaint from the Brazilian Association of Fuel Importers (Abicom), which claimed that Petrobras was charging prices below international parity, which would have affected the expectations and continuity of investments made by importers based on the company's previous signals.

Concerning the gas market, it suspended three different cases brought against Petrobras for monopoly abuse. In the asset sale proposal, the agency considered that the company had made an "irrefutable" offer to the CADE at the time, which was aimed at eliminating its dominant position. This put an end to any illegal practices.

At the beginning of the negotiations, the sale of the assets was not an imposition by the CADE, as alternative measures could have been adopted, such as the behavioral remedies now under discussion, according to sources. They claim that the agreement was open to revision from the outset, depending on several factors, including a change in strategy.

There are still interpretations among members of the panel that the recent change in pricing policy, which changed the PPI model, could justify the obligation to sell the refineries.

Sergio Araujo, president of Abicom, believes that if the CADE accepts Petrobras's request, it will have to establish robust alternative remedies. "With the revision of the contract, anyone who invests in refining will be competing with the dominant player (Petrobras), which may have a pricing policy that doesn't conform to the market," he said.

Petrobras did not reply to a request for comment.

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

02/26/2024

<u>REGULATION OF AI MAY BE POSTPONED UNTIL AFTER ELECTION</u>
Senate rapporteur promises to send text in April, but analysis face challenges

Pointed out by Senate President Rodrigo Pacheco as a priority for the first half of the year, the bill authored by him that regulates artificial intelligence is expected to advance soon in the Upper House. The rapporteur of the matter, Eduardo Gomes, promises to deliver the report for voting in April. From there, lawmakers' assessment is that the challenges of the text will only be beginning, and the conclusion of the analysis in Congress may be postponed until after the municipal elections to be held in October.

The regulation was advocated at the beginning of the year not only by Senator Pacheco but also by Chamber of Deputies Speaker Arthur Lira and the president of the Superior Electoral Court, Alexandre de Moraes, who urged Congress to act, claiming there are risks to the elections.

Eduardo Gomes said that it is not possible to improvise in the face of a topic that is still unknown to many. For him, it will be up to the electoral court and the regional courts to regulate the 2024 election based on the current legislation. "Voting before the elections doesn't make sense. Maybe it makes sense to solve minor clashes, but it won't solve the important issue of a safe law. What defines the time is the security to do it," he said during an event last week.

To Valor, Mr. Gomes emphasized that other countries have been cautious about the topic to preserve their innovation capacity. "The text will undergo several changes. We have to define where Brazil will be, whether as a consumer or formulator of AI policies. Speed is needed, but not in a way that makes legislation inefficient. The intention is for everything to be resolved in the second semester, until COP-29 [in November]," he said.

The feeling is shared by other lawmakers. Senator Nelsinho Trad said that it is necessary to respect "the rapporteur's time" due to the complexity of the issue. "The debate can be exercised and move forward in parallel," he said.

There are more than 50 bills to regulate AI in Brazil. The initiatives are recent—the oldest one date back to 2019.

Among the main points of the proposals is the use of AI during the electoral period. With the advancement of technology, it is now possible to produce extremely convincing fake audiovisual content, the so-called "deep fake."

In one of the most recent cases, an audio file created by artificial intelligence falsely portrayed the mayor of Manaus, David Almeida, swearing at teachers to harm him. The case is being investigated by the Federal Police.

As the minority leader in the Lower House, Congresswoman Bia Kicis wants to hold public hearings on the subject parallel to those of the Senate and is studying the possibility of creating a joint parliamentary front on artificial intelligence. The aim is to be prepared when the proposal from the other Upper House arrives.

“It will be a theme that will govern the next decades. We don’t need to talk only about fraud. AI has to go far beyond that, in education, medicine, there’s so much that will be impacted by it. I want to get into this topic so that we [from the opposition] don’t remain oblivious, because otherwise, we’ll be bulldozed,” said Ms. Kicis.

The lawmaker criticized the lack of regulation in Congress, which, in her view, allows the TSE to create the rules.

The Lower House has already passed a bill in 2021 to regulate the use of AI. However, the text has been stalled in the Senate since then. Senator Pacheco’s proposal, currently seen as the one with the greatest chance of advancing, was formulated based on a commission of legal experts in 2022 to consolidate the various initiatives on this matter in Congress.

“Now we have to wait for the bill to be approved [in the Senate]. It’s no use doing another one,” said Ms. Kicis.

For lawyer Renata Schuch, a specialist in regulatory law, the indiscriminate use of AI can shape the outcome of elections. “Congress’s rapid regulation is imperative. The wording brought by the bill is already capable of regulating and punishing certain behaviors that may be seen as contrary to the fairness of the electoral process,” she said.

Gabriel Cosme de Azevedo, a specialist in digital law, emphasizes that although the bill has a one-year validity after publication, its effects “have room to be immediate” in terms of awareness and search for future compliance by AI operators. “The law would expand the possibility of gathering cases and improving provisions involving AIs in the electoral context.”

Ticiano Gadêlha, a lawyer specializing in Intellectual Property Law, said that, as in other countries, AI can be used by the TSE itself to ensure greater accessibility in the electoral process and even combat fake news by identifying and blocking such information. “It is necessary to ensure that the technology is used fairly and safely, respecting the rights and, of course, the privacy of voters.”

For him, “technology, as a rule, progresses more rapidly than the law, which means that regulation has a great risk of being obsolete from the start.” “The versions we call intelligent are updated at a very fast pace, so we must have a non-prohibitive regulation and one that punishes any excesses.”

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

02/26/2024

IMPORTED STEEL PITS CONSUMER INDUSTRIES AGAINST STEELMAKERS
Mills are calling for an increase in the import tax on the material to 25% and for China to be investigated for “dumping”

The tug-of-war between Brazil-based steelmakers and the steel-consuming sectors, which became personal between the end of 2023 and the beginning of this year, has returned to the sectoral arena, but with no less intensity. On one side, the mills are pushing to raise the import tax rate to 25% and are moving to have China investigated for “dumping” steel exports into the country. On the other side, industries led by the machinery and equipment sector accuse the steel mills of distorting figures to create a scenario worse than reality and call for the debate to remain “technical.”

At the center of this dispute, the federal government has implemented a few measures, which have not satisfied the mills and have been welcomed by the opposition. Recently, the Executive Management Committee of the Chamber of Foreign Trade (Gecex-Camex) announced the reinstatement of import tariffs on five steel products (tubes and bars), which had been reduced in 2022 to a range of 12% to 16%, in line with Mercosur's Common External Tariff (TEC).

Both sides agree that this initiative did not fully address the steelmakers' demands. "It was insufficient," stated leaders of Gerdau and Usiminas, at a time when the sector is seeking more forceful measures. "We felt there were no surprises because the government has access to the consultants' figures and can assess what is actually happening," said José Velloso, president of the Brazilian Machinery and Equipment Industry Association (ABIMAQ).

The data shows a significant growth in imports, around 50% by 2023, reaching 5 million tonnes, according to a survey by the Brazil Steel Institute. In January, there was a slight decline of 3% compared to the previous year. Nevertheless, the volume entering the country remains above 350,000 tonnes per month. An increase of 20%, to 6 million tonnes, is expected in 2024.

The ABIMAQ claims that while there will be an increase, imports will not reach the highest levels ever recorded. In 2010 and 2021, significant jumps in foreign purchases occurred, driven by strong demand and a shortage of supply, respectively. The organization also highlights that in November 2023, steel in the Brazilian market was the most expensive in the world, only losing that position when Mexico recently increased tariffs on steel products. More countries have adopted quotas or a 25% tariff to protect themselves from Chinese steel.

According to the Platts index by S&P Global Commodity Insights, which ABIMAQ follows, the premium for domestic steel over imported steel rose again to 21% in January—$684.75 per tonne for hot-rolled coil from China, internalized, compared to $828.28 for the domestic price. "In mid-2023, the premium reached 42% and led to an increase in imports," said Mr. Velloso.

The steelmakers argue that maintaining the current foreign trade policy with minimal correction in import rates will lead to more layoffs and capacity closures. Recently, Gerdau laid off 100 workers in Pindamonhangaba, in the state of São Paulo, totaling nearly a thousand cuts in recent months. "Imports continue because they are part of a Chinese state program, not an isolated action by one company," said an industry source, noting that data is confirming that Chinese mills are operating with a negative margin of up to 56 dollars per tonne.

Meanwhile, the steel-consuming sectors argue that the same companies that shut down 13 blast furnaces at the start of the pandemic, fearing demand shortages, are now requesting safeguards from the government. At the pandemic's outset, the occupancy rate of local mills dropped to 45%, compared to 64% today, amid weak demand, leading to the shutdown of blast furnaces.

"If the problem is Chinese steel, the steelmakers shouldn't be asking for an increase in the rate for all origins. They should use the correct instrument, which is the dumping investigation, not the inclusion of dozens of products in LETEC [Mercosur's list of exceptions to the common external tariff]," explained Mr. Velloso. He adds that the tax increase sought by steel companies will raise production costs, as Brazil doesn't produce all the steel types it consumes. "If the invasion is Chinese, Brazil can adopt measures against Chinese steel. When [the mills] ask for LETEC at 25%, they are protecting themselves from the entire world, except Argentina."

The construction sector also opposes the increase in rates despite only making "occasional" purchases of rebar from abroad, according to Renato Correia, president of the Brazilian Chamber of the Construction Industry (CBIC). He foresees a cascading effect on the price of Brazilian steel if imports become less competitive. The imported steel used in the sector primarily comes from Turkey, not China, due to specific technical requirements.

"This price is certainly passed on to the domestic market," stated Yorki Estefan, president of Sinduscon-SP, the state of São Paulo builders' union. The organization notes that steel represents between 5% and 8% of construction costs. Representatives from both organizations have observed significant increases in the price of rebar during the pandemic, with values stabilizing at a high level, impacting the cost of construction.

According to the Brazilian Institute of Economics (FGV Ibre), which calculates the National Construction Cost Index (INCC), the price of rebar has risen by 61% since the beginning of 2019, although there has been a 14% decrease in the last two years. "Steel consumers are benefiting from this drop, which reverses some of the previous price increases, while steelmakers are suffering from falling domestic prices due to the growth of imports," explained Ana Maria Castelo, coordinator of construction projects at FGV Ibre. She recalls that the construction sector has been "traumatized" by the abrupt increases caused by the pandemic, noting that the price of rebar doubled between the end of 2018 and mid-2022.

"When there was a shortage of steel and a huge increase [in prices], both the construction sector and the machinery and equipment sector had to bear the cost," explained Mr. Estefan. "We observed decapitalization of construction companies and a positive balance sheet for steel companies." For him, calling for protectionist measures does not seem appropriate when there is an increased international supply of steel. According to the organizations, any rise in steel prices would have to be passed on to construction contractors.

In a statement, the Brazil Steel Institute explained that it has been involved in technical meetings with the government, highlighting the critical state of the sector. "We have demonstrated why it is necessary to temporarily and urgently raise the import tariff on steel from 18 NCMs (Mercosur Common Nomenclature), out of 273 existing, to 25%, in contrast to the 10.8% currently in effect. Any lower level is insufficient to counteract the influx of foreign steel, considering that major markets such as the United States, 27 EU countries, the United Kingdom, and Mexico have already imposed 25% barriers," the statement reads.

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

02/28/2024

LULA WITHDRAWS PROPOSAL TO REINTRODUCE PAYROLL TAXES
Tax exemption helps create jobs, companies and trade unions say

President Lula signed a provisional executive order on Tuesday (27) that eliminates the reintroduction of taxes for 17 labor-intensive sectors. The issue will be addressed through an urgent bill sent to Congress. The information was released by the minister of Institutional Relations, Alexandre Padilha, in a video distributed on Tuesday evening.

"Signed today [Tuesday] by President Lula, it will be published tomorrow [Wednesday], paving the way for these negotiations to continue. The withdrawal from the provisional presidential decree of the specific point on the reintroduction of taxes on [some] economic sectors will be published tomorrow [Wednesday]," Mr. Padilha said.

The payroll relief system allows companies in 17 labor-intensive sectors to replace the 20% contribution on wages with a rate of between 1% and 4.5% on gross revenues. Companies and unions say that this model contributes to job creation by reducing hiring costs. The segments affected by the measure employ 9 million people.

Last year, Congress extended the measure until 2027. However, President Lula vetoed the bill, and lawmakers later overrode the Executive branch's decision. Subsequently, in December, the government issued provisional presidential decree 1,202, outlining a gradual reintroduction of taxes. However, this provisional decree was also rejected by lawmakers, specifically due to the reintroduction of taxes.

The change announced by Minister Padilha impacts the provisional decree issued in December. According to the minister, two other points in the text—the end of the Emergency Program for the Recovery of the Events Sector (Perse) and the limitation of tax offsets—will remain in the proposal, which is already in place but must be analyzed by Congress.

"Perse is a program created at the time of the pandemic, and the pandemic is already over, which is starting to have a huge impact on public accounts," the minister said.

The removal of the reintroduction of taxes was announced last week by Senate President Rodrigo Pacheco after a meeting with Senate leaders, Mr. Padilha, and Finance Minister Fernando Haddad.

Last week, lawmakers and businesspeople held an event in Congress in defense of the payroll relief. On that occasion, they presented figures from Desonera Brasil, a movement that brings together representatives from the 17 sectors affected by the rule.

According to Desonera, companies in these sectors formally employed 9.14 million people last year—an increase of 17.7%, compared to 13.5% growth in other sectors over the same period. According to the study, more than 728,000 jobs would not have been created since the beginning of 2012 without the exemption. In addition, the average salary in the 17 sectors was 41.8% higher than in sectors without the exemption. The calculations were based on figures from the Ministry of Labor and Employment.

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

02/29/2024

BRAZIL PROPOSES TAX ON SUPER-RICH, BUT SEES NO CONSENSUS AT G20
Proposal is unlikely to be included in final statement of finance ministers' meeting in São Paulo

At the opening of the G20 finance ministers and central bankers' meeting in São Paulo, Brazilian Finance Minister Fernando Haddad defended reframing the globalization model, tackling poverty and climate change as global issues, and supporting tax justice with the creation of a global minimum tax on wealth. However, the government does not expect taxation of the super-rich individuals to be included in the meeting's final statement.

"We have reached an unsustainable situation," Mr. Haddad said, citing that the richest 1% of the population own 43% of the world's financial assets, while they emit the same amount of carbon as the poorest two-thirds of humanity. This situation generated crises, leading the world to "struggle to shape a new globalization."

According to Mr. Haddad, recent situations such as the 2008 global crisis have revealed the limitations of the current globalization model. "There are no winners in the current crisis of globalization," said Mr. Haddad. He participated in the meeting via videoconference because he recently tested positive for COVID-19.

"Although poorer countries pay a relatively higher price, it would be an illusion to think that rich countries can turn their backs on the world and focus only on national solutions," he stated. "We need to understand poverty and climate change as truly global challenges."

According to Mr. Haddad, inspired by India's previous experience, the current Brazilian presidency of the group took on the challenge of creating an inclusive G20. In this context, the minister cited the need to advance not only in reforming the global governance and combating poverty and inequality, but also in an effective funding for sustainable development, tax justice, and the chronic indebtedness of many countries.

In the tax front, Mr. Haddad cited the proposal for a global minimum tax. According to him, together with the progress of topics, for example, within the scope of the Organization for Economic Cooperation and Development (OECD), a global minimum tax on wealth could establish a third pillar in international tax cooperation.

"We need to make the world's billionaires pay their fair share of taxes."

The proposal for a single global tax for the richest has the support of France. According to French Finance Minister Bruno Le Maire, the Macron administration supports and will work for the rapid implementation of the proposal for a global minimum tax on the richest individuals.

"We are completely committed to accelerating the process of adopting this measure to fight any type of tax planning in the world," he told reporters.

According to Mr. Le Maire, that would be the third pillar of a new international tax system, which also involves fair taxation of intangible assets and a global minimum tax on large multinational companies.

"I am very happy to see that we have made a lot of progress in this direction towards a more efficient and fair system," he declared. In France alone, a minimum tax on corporations could produce additional revenue of €1.5 billion per year from 2025 onwards, he said.

Despite French support and the promise of approval by other countries, the Brazilian government says it does not expect the proposal to be concluded in the meeting's final statement.

"The statement is being drafted," said Dario Durigan, executive secretary of the Ministry of Finance. "We know the world is going through a tense geopolitical moment. From our point of view, while leading the financial track, it is important to focus on what is important for the economy," he said, adding that there is consensus around discussions regarding inequality and ecological transformation.

"The statement arises from this economic consensus. We try to avoid other discussions that do not contribute to the economic development. And this is a topic [minimum wealth tax] that, initially, would not be included in the statement," he said, adding that the document has been drafted "in a simple and straightforward way" together with the other countries in recent days, and that Finance Minister Fernando Haddad has now formally presented Brazil's proposal.

According to Mr. Durigan, the government will not submit a specific tax rate in its proposal to create a third pillar of international taxation that would create a global minimum tax on wealth. "It is a concept. The dynamics in international forums require more time. It is necessary to encourage support for the idea and, from there, carry out studies, impact studies, to see what could be politically accepted."

Mr. Durigan said there is a consensus that the world will require funding in different ways, but he pointed out that "the G20 is a complex forum."

"There are different perspectives, countries with different interests, we know that, but we cannot fail to propose an instrument. The world will need that, it experienced this need in the pandemic, it may experience others. We have seen climate change, which will require responses, and the world needs coordination."

For Guilherme Mello, Secretary of Economic Policy of the Ministry of Finance, Brazil's initiative to propose, in the G20, a global minimum tax on wealth is a step forward in the OECD's agenda to tackle tax evasion by large multinational companies.

"Right now, pillars 1 and 2 of the OECD are being built and made viable, with a minimum tax on the large companies' earnings. What Brazil is bringing to the debate is a third pillar, on the wealth of individuals. As we have seen in recent decades, there is a booming concentration of wealth in the hands of a few individuals, the super-rich, worldwide."

The topics Brazil chose for its presidency of the G20, according to Mr. Haddad, arise from the goal of building a new globalization. Brazil has proposed task forces on climate, hunger and poverty, for example.

According to the minister, the global economic situation is challenging, the climate crisis is "a true emergency" and the world has been struggling to reframe a new globalization that has to be "socio-environmental."

"We are aware that the global economic situation is challenging," he stated.

Over the past three decades, according to Mr. Haddad, discourses on globalization have oscillated between unbridled optimism and complete denial. Until the global financial crisis of 2008, "global economic integration got mixed up with the liberalization of markets, the ease of labor laws, financial deregulation, and the free movement of capital," he pointed out.

Meanwhile, "the climate crisis has aggravated, becoming a true emergency."

"The poorest countries are bearing increasing environmental and economic costs, at the same time that they see their exports threatened by a protectionism surge, as well as a relevant share of their revenues impaired by debt service, in a post-pandemic scenario of high interest rates."

According to Mr. Haddad, it is crucial to understand climate change and poverty "as truly global challenges to be faced through a new socio-environmental globalization."

For him, it is paramount to create incentives so that international capital flows "are efficiently targeted towards the best opportunities, which should no longer be set according to immediate profitability, but rather according to social and environmental criteria," he stated.

"It's time to reshape globalization," he defended.

The G20, Mr. Haddad argued, is the forum in which countries can effectively coordinate their economic policies, "so that our efforts can multiply," he said.

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