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NEWSLETTER

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HIGHWAY AUCTIONS IN APRIL TO TEST MARKET POTENTIAL

Tenders for BR-040 and the Litoral Paulista Lot PPP are expected to generate R$9 billion in investments

The highway concessions market will be tested in April, when two important auctions are scheduled, involving construction work estimated at R$9 billion. The federal auction for BR-040, connecting the cities of Belo Horizonte and Juiz de Fora, in Minas Gerais, is scheduled for the 11th. On the 16th, the São Paulo state government plans to carry out the bid for the Public-Private Partnership (PPP) for the Litoral Paulista Lot.

The highway sector is uncertain about the level of investor interest in the new projects being structured. The market ended 2023 on alert after the cancellation of the auction of BR-381 in Minas Gerais, in November, due to a lack of proposals. However, analysts point out that it was a particularly challenging and troubled project, and the scenario is not likely to recur in the April auctions. Both bids are expected to attract offers, but the level of competition remains uncertain.

“The market is tough but BR-381 is an outlier. The BR-040 southern stretch is attractive; more than nine companies have visited it. It is an asset with an interesting return and good traffic volume,” said Marcos Ganut, managing partner at Alvarez & Marsal.

He added that the project has challenges due to the highway’s characteristics, including a high flow of trucks, which demands high maintenance costs. “However, the balance between construction work, operational costs, and traffic risk is positive.”

The BR-040 concession runs from the capital of Minas Gerais to Juiz de Fora and provides for R$5 billion in construction work. Operating costs are estimated at R$3.53 billion, over the 30 years of the contract. The winner will be the competitor offering the biggest discount on the toll fee.

Among potential interested parties are companies such as CCR, Pátria, EPR (Equipav and Perfin), and Ecorodovias, as well as construction companies.

The auction is also emblematic because it brings a partial solution to the imbroglio surrounding the re-tendering of Via040, an Invepar concession that went wrong and is being returned to the government to be handed over to a new operator.

Invepar has been trying to return the concession since 2017, but only in 2020, it managed to sign the re-tender contract. A new auction was expected to be held by 2022, but the process faced a series of delays. In 2023, the court had to guarantee that Invepar would continue operating the route until the re-tender. However, the auction will not completely solve the problem as it does not include another stretch of Via040, from Belo Horizonte to Goiás, that is yet to be re-bid.

Although the project is linked to the re-bidding, the reading is that it should not pose a legal risk to the auction because the invitation to tender has detached the two processes, says Lucas Sant’anna, a partner at Machado Meyer.

The second auction scheduled for April, involving the Litoral Paulista Lot PPP, on the coast of São Paulo, has also faced ups and downs in recent years, but the expectation is that it will now be successful. “The private sector is familiar with and has studied these stretches for a long time. There should be interested parties,” Mr. Sant’anna said.

In the PPP, which involves R$4.3 billion in construction work, part of the funds will come from the government, which will pay the concessionaire an annual consideration of up to R$199 million per year. The winner will be the group offering the biggest discount on the amount. Should any interested parties offer a 100% discount, bringing the consideration to zero, the dispute will be defined by the largest grant.

The Litoral Paulista project was initiated by the São Paulo government in the past administration, which was unable to get the auction off the drawing board due to resistance from the municipality of Mogi das Cruzes, which is crossed by the tendered stretch. The solution found by the current administration was to transform the contract into a PPP, which allowed to reduce the toll rate and the criticism around it.

Ecorodovias is one of the groups analyzing the bid. The company has a special interest in the project as it currently operates the Anchieta-Imigrantes system, connecting the capital city of São Paulo to the coast, and whose demand competes in part with highways in the new lot. The market reading is that the company will likely try to ensure its hegemony on the route. CCR, EPR, and Starboard (which debuted in the sector in 2023 by winning the Rodoanel Norte auction) are also seen as possible competitors.

When contacted, Ecorodovias said it watches “with interest the concession programs announced by federal and state governments to evaluate opportunities.” CCR said it “analyzes all opportunities on the three platforms on which it operates, selectively.” EPR said “it has a habit of evaluating opportunities in the sector.” Starboard and Pátria did not comment.

While the market expects the April auctions to be successful, analysts pointed out that the scenario for highway tenders in 2024 will be tough, due to the high volume of new concessions currently being structured by governments.

“There may be an excess of lots in the calendar. On the one hand, there are multiple project profiles, which can attract newcomers. However, there is concern that the sector will not be able to handle so many bids. The April auctions will be a good barometer”, Rodrigo Campos, partner at Vernalha Pereira Advogados, said.

According to Mr. Ganut, the current scenario for attracting new investors to highway concessions is not optimistic. “It is not easy. Although Brazil’s economic fundamentals are good, the attractiveness for investors is limited. One issue is the return on projects measured in dollars. Furthermore, in recent years we have experienced changes in rules, which brings uncertainty,” he added.

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

04/02/2024

MINISTER ASKS FOR PENALTIES AS ENEL “CROSSED A LINE”
In a meeting with the Electricity Regulatory Agency, Mines and Energy Minister Alexandre Silveira says he is considering measures to revoke the power utility’s concession

The series of problems with the electricity supply in the São Paulo area could jeopardize the continuity of Enel’s concession contract. On Monday, the minister of Mines and Energy, Alexandre Silveira, ordered Brazil’s Electricity Regulatory Agency (ANEEL) to open disciplinary proceedings against the utility. In a meeting with the agency’s board, Mr. Silveira said the company had “crossed the line” and that “all possibilities” of punishment should be considered by the agency.

In an official notice to ANEEL, the minister cited the “repeated episodes” of power outages in Enel’s concession area and said that the dissatisfaction of the population served by the company is “notorious.” Mr. Silveira commented on the decision to initiate the process in an interview with cable news channel GloboNews.

At the meeting with the agency officials, Mr. Silveira reiterated his arguments, pointing out that the plan to renew concessions currently being analyzed by the government could be affected by Enel’s problems. For this reason, he advocated that the company should be sanctioned severely in order to send a message to others, according to an excerpt that Valor had access to.

In addition to the technical problems with the power supply, Mr. Silveira told Enel’s executives that the company had “little dialogue” with governments. “Enel goes beyond all limits in its relationship with the states and the federal government. Given this, we need to be a little more radical,” he said.

For him, the regulator should “consider all the possibilities of punishing the company” and “better evaluate its condition as a concessionaire of energy services in Brazil.” Pointing out that all rights of defense must be granted, Mr. Silveira mentioned a possible action to declare the concession null and void, which means terminating the supply contract.

“Enel has the right to an adversarial hearing, which is natural, but it’s important to note that over R$300 million in fines have been imposed, yet none have been paid. It has consistently failed to meet the required quality of service as outlined by regulations.”

Experts interviewed by Valor believe that it is the ministry’s prerogative to request an investigation, take action, and adopt measures against the company. Still, they believe that the service provided by the company is within the limits set by the agency.

Mr. Silveira informed ANEEL that the case could impact the concession renewal process. He emphasized that any requirement to re-tender the contracts would lead to “chaos.” He said, “If investments regulated for medium and low voltage are already restricted, imagine the reactions if these investment plans were disrupted. It would result in chaos in the Brazilian electricity sector."

He added that "when distribution contracts were signed 10, 15, 20 years ago, they were very loose, which gave the freedom to provide a quality of service far below what the Brazilian population demands."

He also urged ANEEL to prioritize the most pressing ongoing cases. Besides Enel, Mr. Silveira mentioned Amazonas Energia, a utility whose concession the agency had already advised to terminate. Although the case is still under evaluation, he noted that President Lula has the final say on the matter.

ANEEL's board of directors has already rejected a request to transfer control of Amazonas Energia. The distribution company, controlled by the Oliveira Energia group, requested the transfer of control to regularize the situation, as it was no longer able to guarantee the economic and financial sustainability of the concession.

Enel said it was "in full compliance with all contractual and regulatory obligations and is implementing a structured plan that includes investments to strengthen and upgrade the network structure, digitize the system and expand communication channels with customers, as well as mobilizing teams in the field preventively in case of failures."

The utility said it has made "significant investments to improve the quality of service and face the challenges of the electricity sector considering the impact of climate change."

The company claims to have invested R$8.36 billion since 2018 when it assumed the concession in São Paulo, averaging R$1.4 billion per year, nearly double the investments made by the previous concessionaire.

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

04/03/2024

CORPORATE BONDS GRAB LARGER SHARE OF BRAZILIANS' PORTFOLIO
Digital currencies are also attracting investors, survey shows

Most Brazilians are unfamiliar with investments and savings accounts are still the favorite alternative, but corporate bonds and digital currencies are gaining ground, according to a study by the Brazilian Association of Financial and Capital Market Entities (ANBIMA) and pollster Datafolha.

Six thousand Brazilians from different social classes and regions were surveyed about what investments they use. The majority (57%) of respondents say they are unfamiliar with investments or do not use them, compared with 58% in the previous year. The second-largest group (25%) says it uses savings accounts, compared with 26% in the last survey.

The third-largest group (5%) says it invests in certificates of bank deposit (CDBs), structured transaction certificates (COEs), debentures, agricultural credit bills (LCAs) and real estate credit bills (LCIs), compared with 4% in the previous year. These fixed-income securities saw an increase for the second consecutive survey.

The purchase and sale of real estate, investment funds, and digital currencies are tied in fourth place (4%). The share that invests in real estate and funds remained the same, but the population that invests in cryptocurrencies increased compared to the previous year (3%). Crypto assets gained ground in the survey for the second time in a row.

In addition, 3% of Brazilians leave their money at home or "under the mattress" and 2% invest in stocks, private pension plans, or Tesouro Direto (government bonds). Among these products, the only one that grabbed a larger share was Tesouro Direto, which was mentioned by only 1% of the respondents in the previous edition. In addition, 1% of those surveyed invest in coins or gold.

Marcelo Billi, ANBIMA's head of sustainability, innovation, and education, says that most Brazilians who invest in savings accounts use them as checking accounts or to keep their money safe. He says that what Brazilians understand as savings accounts are often remunerated accounts where the balance earns money in digital banks.

"The word 'poupança' [savings] has more meanings than the typical savings account," he said. "Savings accounts have a pedagogical role in preparing people for the world of investments. I think it will not lose relevance as an organization tool for most Brazilians. People know that other investments are better, but they are getting organized," he said.

In Mr. Billi's view, many factors contribute to the spread of investments beyond savings, such as the deepening of the financial market, investors' search for more profitable investments at times of lower interest rates, and social media influencers, who popularized the conversation about financial investments in those platforms.

Young people are taking the lead in searching for investments beyond traditional savings accounts, he said. “Digital currencies are a phenomenon and the conversation about bitcoin has become very popular on social media. Corporate bonds such as CDBs are usually the number one investment when Brazilians leave savings accounts, “he said. “They are publicized as safer options that also offer better yields. Plus, the idea of lending money to a bank is better understood compared to funds, for example,” he said.

The study also showed that 37% of Brazilians invest in financial products now, compared with 36% the previous year and 31% two years ago. The rest of the population does not save money nor use financial products to save money.

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

04/03/2024

SOYBEAN PLANTING EXPECTED TO FALL IN MATO GROSSO IN 2024/25 SEASON
Falling profitability with lower prices and productivity should lead to a smaller planted area in the season

Falling soybean prices and productivity are reducing the profitability of the crop in the 2023/24 season and should lead to a smaller planted area in the following cycle in Mato Grosso, the largest producing state.

According to the Mato Grosso Institute of Agricultural Economics (IMEA), the total cost of soybean production for the 2024/25 crop will increase by 1.2% compared to the current cycle, reaching R$7,367 per hectare. The expected gross revenue is R$5,517 per hectare, down 6.1%.

“In general, we expect a reduction next season because if the same investment package is maintained, farmers will not be able to monetize the crop,” IMEA Head Cleiton Gauer told reporters during an online event on the state crop. IMEA will release the first planting estimate in May.

Brazil’s soybean and corn production is expected to see the greatest loss in the 2023/24 harvest in the last 25 years amid a drop in grain prices and productivity, according to the Center for Advanced Studies in Applied Economics (CEPEA).

In the 2023/24 harvest, the 18.4% drop in the average price of soybeans and 18.2% in productivity outweighs the positive effect of the 36% reduction in fertilizer prices and 24% in seeds, said Mauro Osaki, a researcher at CEPEA. According to these calculations, farmers face losses with any productivity below 50 bags per hectare and any price below R$100 per bag.

Regarding the 2024/25 harvest, CEPEA calculates that productivity of 55 bags per hectare will be required to cover costs.

According to Mr. Osaki, the outlook for the second corn crop is more positive, but profitability is still insufficient to cover losses from soybeans. “Considering the current price of R$38 per bag and the average productivity of 120 bags per hectare, the profitability is R$3 per hectare,” he said.

Glauber Silveira, the executive director of the Brazilian Corn Growers Association (ABRAMILHO), said that the current corn crop is “less weird” than soybeans because of the rains in March and early April. But he added that prices do not pay production costs and the consequence should also be a reduction in corn planted area in the 2024/25 season.

IMEA estimates for the 2024/25 corn crop in Mato Grosso an increase of 8.1% in the cost of production, to R$6,345 per hectare. Gross revenue is projected at R$3,214, down 8.1%. With the average price of corn at R$30 per bag, the crop will have a negative EBITDA of R$1,456 per hectare in the next cycle—in the current crop, the loss is R$547.05.

For soybeans, with the average bag price at R$94.80 and costs similar to those of the current cycle, the estimate is EBITDA of R$91.08 per hectare, considering the historical average productivity of 58 bags per hectare. In the 2023/24 harvest, the productivity calculated is 52.81 bags per hectare, which generates a negative EBITDA of R$164 per hectare, according to IMEA.

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

04/05/2024

GOVERNMENT STUDIES CREDIT FOR TV 3.0
New technology promises better experience for viewers

The minister of Communications, Juscelino Filho, advocated on Wednesday (3) for the offering of credit to encourage the development and implementation of TV 3.0 in Brazil. “We have meetings scheduled with development banks to study this possibility,” the minister said, at an event held at the ministry’s headquarters to discuss the matter.

The minister said credit is necessary as the new technology requires “massive investment” and also because the broadcasting industry has lost revenue due to the rise of social media platforms. He points out that, unlike the conventional broadcasting sector, these platforms are not subjected to regulation and taxation.

“We are aware that the broadcasting industry has been heavily hit with the recent arrival of digital and social media, which took a significant share of the sector’s revenue. Naturally, we seek mechanisms like these,” Mr. Juscelino said.

TV 3.0 promises to provide a better experience for viewers. It will be more interactive, with dynamics similar to those seen in online apps. In addition to conventional live broadcasting, the new open TV will allow access to on-demand content, when integrated with internet access. The advertising market sees opportunities to broadcast ads in new formats.

The new service will feature increased quality in audio and video reception with resolution levels of up to 4K and 8K, making the experience seem “more realistic.”

The government estimates that, by the end of 2024, the new TV 3.0 technological standard should be set, by a decree, to be adopted by Brazil. The country is currently testing different technologies to evaluate which one best suits the Brazilian reality. Among the preferred models are those from Japan, the United States, and South Korea.

The government carried out a similar process in the past when it chose the Japanese standard for digital TV.

Mr. Juscelino estimates the implementation of TV 3.0 to start in 2025. “The entire industrial chain in the sector will adapt to produce the necessary equipment, ranging from transmitters, [signal] converters, new TV sets,” the minister said.

Present at the event, the president of the Brazilian Association of Radio and Television Broadcasters (Abert), Flávio Lara Resende, also defended the adoption of public policies to promote and fund the sector. Another request from broadcasters raised by the entity is the need for more frequency signals to implement TV 3.0 in Brazil.

Mr. Resende pointed out that Brazilian broadcasters initially offered around 80 open channels to the country’s population. Today, according to him, there are only 44 channels. “It is a significant reduction taking place over the years, with almost no offset,” he lamented.

He made a direct appeal to the Ministry of Communications and the Brazilian Telecommunications Agency (ANATEL), which was represented at the event by superintendent Abraão Balbino.

Mr. Resende also spoke of the importance of free-to-air TV as a service that reaches the entire Brazilian population, delivering quality programs.

“Broadcasting plays a key role in social communication in the country, of undeniable public interest, being the only media reaching the entire Brazilian population in a free, open manner. It is an essential service for the maintenance of our democracy,” the president of Abert said.

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

04/08/2024

<u>STRONGER COMPANY RESULTS CREATE POSITIVE OUTLOOK FOR 2024</u>
Survey of 394 non-financial companies shows growth in revenue and profit in last quarter of last year

Brazilian publicly traded companies had a strong performance in the fourth quarter of 2023, with both profit and revenue growth compared to the previous year and the third quarter. This achievement was driven by companies focused on the domestic market and continued cost-cutting efforts, which offset the weakness in commodities. In the view of analysts, this positive trend opens up a perspective for strong performance throughout this year, especially for domestic companies. This optimism is bolstered by declining interest rates and rising consumer spending.

A survey by Valor Data of 394 non-financial companies shows that the net profit of this group of companies reached R$54.1 billion, a 12.6% increase compared to the previous year and 20.4% compared to September. Meanwhile, revenues reached R$913.5 billion between October and December, a 3.4% increase over the same period in 2022 and 4.9% compared to the third quarter. These figures exclude Petrobras and Vale due to their size, to avoid distorting the results, as well as companies that have recently undergone court-supervised reorganization, such as Oi, Light, and Paranapanema, whose numbers significantly vary year-over-year.

Despite the improvement, analysts interviewed by Valor considered the fourth-quarter results “neutral,” meaning there were no major surprises and mostly fell within the market’s expectations for the quarter.

Companies operating in the domestic market had a more positive performance than those exporting commodities, which were affected by falling prices and the fact that the exchange rate remained around R$4.8 per dollar.

“In aggregate, the results were only 4% below what we expected, which we consider neutral performance,” said Aline Cardoso, head of Brazil equity strategy at Santander. “Still, we had a quarter in which company profits grew on average by 3%, compared to a 20% decline in the third quarter.”

“The quarter was slightly worse than we expected, especially in EBITDA and profit, but undeniably, it was a very strong performance in year-over-year comparison,” said Carlos Eduardo Sequeira, head of research at BTG Pactual. He highlighted the performance of companies operating in the domestic sector, supported by better economic performance during the period.

The energy, sanitation, and telecommunications sectors, in general, surpassed expectations. In the energy sector, increased demand for electricity and higher prices, driven by higher temperatures, boosted results during the last three months of the year.

Meanwhile, telecommunications companies, especially Telecom Italia’s TIM and Telefónica’s subsidiary, took advantage of a more “rational” competitive environment—with less aggressive offers—and passed on price increases above inflation to customers. Reductions in investments also resulted in a significant margin increase and robust cash generation.

Overall, what caught analysts’ attention was the improvement in efficiency that domestic companies demonstrated in the fourth quarter, with margin expansion and robust cash generation thanks to initiatives taken in recent years. “In a more challenging environment, companies needed to pursue greater efficiency in profit margins,” said Mr. Sequeira.

According to Bank of America (BofA), which considers 79 companies composing the benchmark stock index Ibovespa, including financial companies, earnings per share fell by 13%. In contrast, EBITDA decreased by 3%, and revenues remained stable on a year-over-year basis. Compared to the third quarter, earnings per share fell by 1% for the year, EBITDA rose by 15%, and sales fell by 6%.

Excluding effects from energy and commodity companies, notably Petrobras and Vale, earnings per share grew by 21% in the fourth quarter, compared to the same period in 2022, with EBITDA also rising by 21%, and revenues of the 79 surveyed companies increasing by 5%. Compared to the third quarter, earnings per share remained stable, while EBITDA increased by 9%, and company sales increased by 6%.

Commodity-related companies had weak results as expected due to falling prices, resulting in reduced profits. According to BTG’s survey, commodity companies experienced a 7.2% decline in revenues and a 22.7% decline in net profit, on a year-over-year basis. According to Santander, results ended up slightly better due to a smaller-than-expected decline in prices.

Both oil and pulp experienced lower prices during the fourth quarter, with Brent crude falling by 7% during the period, averaging $83, while pulp traded in China saw a 29% reduction in prices, to $615 per tonne, due to macroeconomic uncertainties worldwide.

Meanwhile, iron ore maintained high levels, with supply-side issues, but steel mills had low utilization rates, and steel prices remained under pressure.

Overall, expectations for the year seem more optimistic. An analysis by Santander of earnings conference call transcripts during the first quarter shows a significant increase in the use of the word “recovery” and fewer mentions of inflation and default, indicating that companies anticipate a better environment in 2024—which could mean improved profit margins throughout the year.

“We expect that the economic recovery, real wage gains, and lower unemployment should have positive effects on consumer sectors during the first quarter,” said the head of research at BTG. “It won’t be a spectacularly stronger season, but the trend of improvement is expected to continue,” he said. He added that much of the improvement will come from lower interest rates, reducing pressure on financial expenses.

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

04/08/2024

CHINA SURPASSES ARGENTINA, SUPPLYING 40% OF BRAZIL’S IMPORTED CARS
Acceleration started in the second half of 2023; country becomes relevant customer for China

China accelerated exports of vehicles in the first quarter of the year and led the external supply of cars to Brazil. The Asian country, which is now the world's largest producer of automobiles, accounted for 39% of passenger vehicles imported by Brazil from January to March 2024, up from 10.3% in the same period last year. Argentina, historically the largest supplier of vehicles to Brazil, saw its share fall to 16% this year from 40.2% in 2023. Mexico ranks third, with a share of 12.1% in the first quarter of 2024, compared with 13.6% in the same period of 2023.

In the full year 2023, Argentina ranked first in car sales to Brazil, with $2.24 billion, up 9.8% from the previous year. In the second half of 2023, China accelerated vehicle sales to Brazil, ending the year in second place with $1.09 billion, compared to $186.7 million in 2022.

From January to March 2024, of the $1.46 billion in Brazilian foreign purchases of automobiles, $569.9 million came from China. The figure is more than five times the $102.9 million for the same period in 2023 and more than half of what Brazil bought in cars from China last year. China's fast pace also boosted the total import of passenger cars by Brazil, which grew 46.4% year over year in the first quarter.

Argentina shipped $234.6 million to Brazil in the first quarter, down 42% year over year. Mexico exported $176.3 million to Brazil from January to March.

China's official export figures also indicate that Brazil has gained ground in the country's car exports. Brazil, which was the nineteenth destination for passenger vehicles shipped by China in the first two months of 2023, ranked fifth in the same period this year, behind Russia, Belgium, the United Kingdom, and Mexico.

Imports from China stand out because they are growing much faster pace than the domestic market, said José Augusto de Castro, president of the Brazilian Foreign Trade Association (AEB). According to data from the Secretariat of Foreign Trade (SECEX/MDIC), more than 60% of cars imported from China in the first quarter of the year are fully electric. "The data show a strategy for a new landscape with China working to gain ground in this market," he said.

Davi Gonçalves, an analyst specializing in the automotive sector at Tendências, a São Paulo-based consultancy, recalled that imports of Chinese electric and hybrid vehicles grew last year, especially in the fourth quarter.

"The flow remained strong despite the introduction of an import tax in January and is likely to remain so in the short term. Among the cyclical factors that favor the category is the increased interest of Brazilian consumers in high-tech, renewable energy cars amid a more favorable environment for products aimed at high-income individuals," he said.

The competitive prices of Chinese automakers and Brazil's weak production of these vehicles also play a role, said Mr. Gonçalves.

With the result seen from January to March, vehicles became Brazil's second most imported item from China and helped to boost total purchases from the Asian country. While the value of Brazilian imports fell 1.8% from January to March compared to the same months in 2023, the arrival of products made in China grew 14% in value, according to SECEX. The growth was driven by a 40.2% increase in volume. There was a 17.6% drop in average import prices.

Gabriela Faria, an economist at Tendências, recalls that the reduction in prices in Chinese imports combines a more general scenario of price reduction after the shocks that put pressure on global inflation with a specific situation in China, which has been experiencing "deflation." "China expanded its production capacity, but there was no local demand to absorb the supply. Prices fell as a result, including those of the products it exports," he said.

Several other countries have seen China grab a larger share of their car imports, said Mr. Gonçalves. "Although levels are expected to remain historically high throughout the year, some obstacles limit the pace of expansion," he said. In addition to the Import Tax, Mr. Gonçalves cited the expected increase in domestic production, which includes the start of operations by Chinese automakers in Brazil between the end of this year and the beginning of next year. Following a decision by the Brazilian government, electric cars started paying 10% of Import Tax in January 2024. The rate is expected to rise gradually until it reaches 35% in July 2026.

China has increased exports of several items and one is cars, which has raised protection policies in several countries, said Livio Ribeiro, a partner at BRCG consultancy and researcher at Fundação Getulio Vargas's Brazilian Institute of Economics (Ibre-FGV). For instance, Brazil protected its industry by increasing the Import Tax rate.

"In the specific case of Brazil, one element seems different. The Brazilian car industry is a 60-year-old baby reliant on Brasília for protection. However, the government has an interest in absorbing Chinese companies. So, the government imposed an import tax, but paved the way for these companies to bring part of their production here, which is not an immediate process," he said.

Brazil's higher auto imports reflect one of Beijing's directives to elevate China's position in value chains, said Mr. Ribeiro.

"China is driving a technological densification of exports worldwide, and vehicles are no exception," he said.

"China is already at the point of exporting factories as well, following the example of other Asian countries, but much faster."

Korea's Hyundai is an example of success in this regard, he said. "I think China wants to do something similar. One difference is that electric cars cater to a niche demand, whereas previous experiences focused on mass production," he said.

On the other hand, Argentina's lost ground in Brazil's car imports shows that one should not treat both countries' automotive industries separately, said Mr. Ribeiro.

"It's actually a single industry spread across two countries. With the crisis in Argentina, there is a movement to produce in Brazil rather than there, and this seems more evident in mass production cars with a higher volume of production," he said.

The slowdown in domestic demand in Argentina is not the only reason, he said. Insecurity about some conditions during the presidential transition, such as labor union negotiations, also played a role.

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

04/09/2024

PRIVATE INVESTMENT, FISCAL ADJUSTMENT, INCLUSION ARE KEY TO GROWTH
Experts say country needs to devise a healthy business environment to attract capital

Experts at the Rumos 2024 event, hosted by Valor at the Rosewood Hotel in São Paulo, said that for Brazil to achieve growth and improvement, it must focus on three key pillars: fiscal adjustment, private investment, and the inclusion and sustainability agenda. According to economists, government officials, and private-sector representatives, the country has already made progress, such as approving the tax reform. Still, it needs to create a healthy business environment to attract domestic and foreign private capital.

For example, the uncontrolled increase in public spending is often cited as a cause for concern among investors. During the event, the executive secretary of the Ministry of Finance, Dario Durigan, acknowledged that actions to reduce and improve the quality of public spending were necessary. "Seeking to reduce expenses is important for the economic team," he said.

The ministry's number two justified the beginning of the tax adjustment on the revenue side due to "distortions" caused by the granting of benefits, exemptions, and other devices that reduced collection without bringing structural economic gains. "With the spending cap [the rule that limited growth in public spending to the previous year's inflation, replaced by the tax framework], there was a lock on expenses, but there was no lock on the revenue side," he said. "The special regimes, presumed credits, [tax] advantages, and loopholes were sometimes reproduced even by municipalities."

The government "has been recomposing the tax base by attacking the most serious inefficient gaps." In the short term, Mr. Durigan acknowledged that, alongside adjustments, the government is counting on dividends from state-run companies to aid in the rebalancing of government accounts. "The Finance Ministry's view is that the [dividend] inflows are relevant from a fiscal point of view, but this should happen with the appropriate dialogue." According to Mr. Durigan, "[Finance] Minister Fernando Haddad does not deny and I do not deny that it is important to have these revenues."

In the long term, the secretary believes that fiscal adjustment will be achieved through the tax reform itself. "Fiscal consolidation was set in motion last year and we now see good results at the beginning of 2024. However, it is an agenda that over time will be fulfilled by tax reform, which will bring about the most comprehensive reorganization of our tax system."

During another panel, Marcos Barbosa Pinto, the secretary of economic reforms at the Ministry of Finance, discussed a series of measures spearheaded by the ministry. These are initiatives to reduce the net interest rate spread (the difference between the funding rate and the banks' lending rate). The secretary referenced a study conducted by the Central Bank, which indicates that if Brazil had a spread equivalent to the global average of 6% per year, it would experience a 40% increase in credit availability and a 5% rise in GDP.

"In the long term, we have an important goal," he said. Brazil has a spread of around 20% per year. "We can reduce it," said the secretary. "Brazil has the conditions to unlock a gigantic credit volume and very large growth."

Mr. Durigan added that the economic team has been working with a dual agenda on a long-term development vision: fiscal and ecological consolidation. "To achieve growth alongside social development and environmental responsibility, we need two distinct agendas," he said. The executive secretary said that "these issues complement each other."

Solutions to increase productivity in Brazil were also issues of debate at Rumos. Mr. Barbosa Pinto said, "Brazil will not be able to grow sustainably without attacking the problem of productivity."

He viewed this as “long-term and challenging work,” but he said that significant changes could be observed in the short term through measures implemented in the recent past, such as the fiduciary alienation law, which significantly expanded the real estate credit market. Mr. Barbosa Pinto mentioned the approval of the new guarantee framework last year, which is expected to decrease financing costs and speed up the recovery of assets pledged as collateral in contracts.

Economists Silvia Matos, coordinator of the Macro Bulletin at the Brazilian Institute of Economics (FGV Ibre), and Cassiana Fernandez, head of economic research for Latin America and chief economist for Brazil at J.P. Morgan, suggested that the structural reforms could potentially have positive effects on productivity. “Something that surprised us was the positive effects of the labor reform,” said Ms. Matos. “The post-pandemic recovery was different. It came specially with formal employment.”

According to Ms. Fernandez of J.P. Morgan, the bank’s models also point to a potential growth of Brazil closer to 1.5% per year. The economist said she had “great confidence” in the effects that consumer spending tax reform could have on productivity going forward.

Santander’s chief economist and former Treasury secretary Ana Paula Vescovi assessed the need to reduce credit costs in Brazil to accelerate growth. “It is necessary to reduce the cost of finances and make room for the private sector to play its role,” she said.

Ms. Vescovi emphasized the importance of the country being able to devise “a healthy business environment with legal certainty.” The economist said she often talks with international investors “who look at Brazil and see the comparative advantages we have at this time of energy transition.” However, issues such as the governance of state-run companies and the tax reform process itself, which still needs to be regulated by Congress, end up inspiring caution.

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

04/09/2024

PETROBRAS CONSIDERS BILLION-REAL AGREEMENT WITH FEDERAL GOVERNMENT
Decision could end dispute involving actions worth R$55.2bn and help government reduce primary deficit to zero

State-owned oil company Petrobras is studying the possibility of entering into a tax settlement to be proposed by the federal government regarding charter agreements for oil rigs, Valor learned from two sources familiar with the matter.

The agreement could put an end to a dispute involving actions totaling R$55.234 billion and, at the same time, help the government to reduce its primary deficit to zero this year.

The draft notice was released for public consultation on Friday (5) by the Attorney General’s Office of the National Treasury (PGFN) and the Federal Revenue Service. It will receive inputs until next Friday (12). The notice is expected to be published by the government by the end of the month when the companies would be able to join the agreement.

The subject was one of the topics discussed at a meeting at the Planalto Palace last week, attended by Chief of Staff Rui Costa and ministers Fernando Haddad (Finance), and Alexandre Silveira (Mines and Energy). They also discussed the issue around Petrobras’s extraordinary dividends.

According to a government source, the state-owned company is likely to join the tax settlement, as it has been losing proceedings on the subject at the Administrative Council of Tax Appeals (CARF).

The company’s executive board is weighing the pros and cons of entering into the agreement, which could end actions worth R$55.234 billion if all litigation is included in the deal. If the agreement is accepted, the oil giant will receive a discount on the debt amount.

However, in its financial statements, Petrobras describes processes related to charter agreements as a “possible loss,” claiming that there are manifestations in favor of the company’s understanding in higher courts.

“The company ratifies the classification [of withholding income tax, IRRF] of the loss as possible as there are manifestations in favor of the company’s understanding in superior courts and will seek to ensure its rights,” says an excerpt of the 2023 fourth quarter’s financial statements.

“The other processes involving [federal tax] CIDE and [social taxes] PIS and Cofins are in different administrative and judicial stages and are described as possible losses as there is a legal provision in line with the company’s understanding,” Petrobras added in its financial report.

The notice placed for public consultation allows the tax settlement—a type of agreement to end administrative or judicial dispute—on the levy or not of IRRF, CIDE, PIS, and Cofins on remittances abroad, arising from the bipartition of the legal transaction in a charter agreement regarding vessels or oil rigs.

It is the so-called settlement of major tax theses, which is being carried out by the Federal Revenue and the PGFN to end disputes and secure revenue for the federal government. That is because, if there is no agreement, even if the federal government wins the dispute at the CARF, companies can appeal in processes that drag on for years.

According to the notice draft, companies that enter into the charter agreement will be allowed to choose from two payment options. The first option offers a 60% discount on the total debt amount. The remainder must be settled with a down payment of at least 30% and the balance in up to six monthly installments.

The second option offers a 35% discount on the total debt amount. The remainder must be paid with a down payment of at least 10% and the balance in up to 24 monthly installments. The draft also says the tax settlement may include the use of tax loss credits and negative tax base on the Social Contribution over Net Profit (CSLL), up to a cap of 10% of the remaining balance after the initial discount has been applied.

The tax settlement is one of the economic team's major bets to increase tax revenue and get closer to the target of reduce primary deficit to zero in public accounts this year.

In the latest federal budget revenue and expenditure assessment report, the government estimated R$36.6 billion for these initiatives, which involve other notices and individual transactions, in addition to the issue of the charter agreement. Petrobras did not respond to a request for comment.

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

04/10/2024

RETAILERS PASS ON TAX INCREASES TO CONSUMERS
ICMS increases and cuts in subsidies catch sellers by surprise

A combination of adverse legal measures affecting retail chains has begun to impact consumers' wallets, leading to price pressures in the market.

Unexpected changes in tax regulations by the government and the Supreme Federal Court (STF) approved at the end of 2023, along with the sales tax ICMS increase in 11 states in January, have led companies to pass on part or all of these costs to customers—and this trend also extends into 2024.

The federal government and the states need funds to offset revenue losses from 2023 and reduce the deficit in public accounts, passing on part of this bill to companies—which transfer some of it to consumers to preserve their margins.

According to a survey by CNC, the National Confederation of Commerce and Tourism, consumers already perceive the current moment as unfavorable for the purchase of durable goods, such as TVs and refrigerators, due to higher prices and expensive credit. March showed the lowest confidence level in this sector since October.

Two central changes in this discussion, both complex in legal terms and approved at the last minute in 2023, were the new interpretation of the payment of Difal (differential ICMS tax rate) and a change in the rules for tax incentives granted by states for investments.

This becomes a headache, especially for retailers, who are more exposed to these measures. The Difal change, specifically, started impacting online retailers last year.

According to Felipe Tavares, chief economist at CNC, "the issue lies in the fact that the retail sector is directly impacted. If retailers bear the brunt of these changes, it ultimately affects the end consumer in equal measure," particularly if businesses cannot absorb the increased tax costs.

"I often say that when a company's taxes increase, it's the customer who pays," said Carla Hamada, coordinator of the tax committee of ABAAS, the association of self-service wholesalers.

As for the subsidies, the Ministry of Finance projects an extra R$35 billion to be added to the federal government's revenue in 2024. As for Difal, the total bill for the retailers ranged from R$9.5 billion to R$10 billion in 2022, the year marked by a legal dispute over outstanding amounts. These dues have already been settled with the states.

The increase in the ICMS rate transfers another R$9.2 billion annually to the coffers of 11 states. The change in the rate is effective from January to April, depending on the region of the country.

Companies such as Magazine Luiza, Casas Bahia, Arezzo, Mateus, and Assaí told analysts in recent conference calls they have already felt or passed on to consumers the effects of one of these three changes in recent months (ICMS increase, Difal revision, or investment limitation).

The change in law also impacted retailers. The government offers a subsidy by reducing or exempting companies from paying taxes as a counterpart to investments, such as the opening or expansion of factories, distribution centers, or machinery purchases.

Until last year, companies deducted these incentives from income tax payments, improving net profit. But the new law sanctioned by President Lula on December 29 excludes benefits linked to operating expenses, focusing on incentives that effectively promote productive investments.

It is a way to reduce distortions, which ultimately boosts the federal government's cash reserves but affects the results of the groups.

In a report in December, XP analysts projected the need for up to a 3% price increase for retailers covered by the bank, on average, to offset an 8% to 15% decrease in net profit due to the new law. This would happen when considering a 50% to 100% decrease in the tax benefit.

As for Difal, it is used to split the ICMS collection between the state where the company is located and the state where the product is consumed.

Example: A product is sold from a state with a 15% ICMS to another with 18%. The credit related to the three-percentage-points difference is divided between the states. This practice is more common in online retail operations.

The question in the courts was whether companies should bear the Difal from April 2022 or after 2023, as companies argued before the Federal Supreme Court. In late November, the Supreme Court, in a surprising turn of votes, decided it would apply after 2022, catching the sector off guard.

Marcelo Roncaglia, a partner specializing in tax law at the Pinheiro Neto Advogados law firm, said that before the Supreme ruling, smaller retailers, facing significant legal uncertainty, complied with and paid the tax. In contrast, larger retailers sought injunctions and deposited the amount in a court-held account. However, with the final decision, all retailers are now obligated to pay the tax for 2022.

"The sad part is that the poorer population ends up being penalized because consumption taxes have a greater share in the budget of these classes than among the richer ones," he said.

Some large companies had not provisioned the sum, requiring a write-down after the Supreme Court decision. Retailers Renner and Magazine Luiza are in this group. Price increases gained momentum after the second half of 2023.

In a highly competitive retail environment, these price hikes end up losing steam. Brazil is a country of fragmented commerce and high competition, which helps accommodate price increases. However, constant crises (such as from 2015 to 2016 and after 2020) weaken businesses across the board and the groups' abilities to absorb increases. And this is the case at the moment.

"These changes without any foresight create tax confusion in a chaos already established by the legal madness that companies face in the country. This only generates uncertainty and higher costs," said Mr. Tavares of CNC.

At Magazine Luiza, with the increase in taxes, especially with Difal, an additional R$3 billion was added to the company's costs in 2023. About R$1.2 billion of that was Difal. "If we divide it by quarter, it's R$300 million that we hadn't collected in 2022, which we started collecting in 2023. So, there was a very significant increase in prices to defend our profitability," CEO Frederico Trajano told analysts in March.

It took three quarters to pass everything on, with a total pass-on sum of about R$1 billion in 2023. There was no effect on the chain from the subsidies.

At retailer Casas Bahia, the company accounted for the effect of Difal for 2022 in the results and passed on the full amount to prices.

According to Mr. Tavares of CNC, it may not be possible to identify this pressure in inflation indicators now. This is because these effects spread within durable and semi-durable categories, with a smaller weight in the index.

In the chains, there has been an increase in home appliance prices in five of the last six months, considering Brazil's official inflation index IPCA, and in four of the last six months in clothing categories. Both segments were affected by Difal.

Subsidies, on the other hand, impact the wholesale food sector, which has made robust investments in the last three years.

In January, Genial Investimentos mentioned in a report the effects on Assaí, a cash-and-carry chain. It stated that investment subsidies had reduced tax and social contribution payments by R$248 million in 2022, a benefit that will no longer be in place.

For financial publishing company Empiricus, the end of this effect can be offset by price increases in 2024, albeit less than those of its competitors.

In the fashion sector, Arezzo&Co's chief financial officer, Rafael Sachete, said at an event last week that chains in general felt the new Difal rule and the impact of the change in how subsidies are taxed at the same time.

In Arezzo's case, with the changes in the rules, the group held back acquisitions and streamlined its structure to improve margins. In 2024, this approach continues, aiming "not to pass on too much to price increases."

He said that there was a price increase to cover part of the Difal impact. The company plans to avoid major hikes in order to remain competitive—and gain efficiency in expenses by selling more.

"These gains from the expenditures, however, are not permanent. So, the gain has to come in two ways, through increased revenue or by starting to raise prices," he said. "The focus for 2024 is still to increase revenue, but we may have a limit on that at some point."

There are still other measures taken that have already reached the balance sheets this year, such as the increase in ICMS rates by the states.

According to consultancy LCA Consultores, IPCA is expected to be impacted by 0.10 points with the tax increase, rising from 4.1% to 4.2% for the year.

A study by Pernambuco's trade federation Fecomércio indicates that food, beverages, clothing, and footwear will be the most affected by the increase—ICMS will rise between 17% and 22%, depending on the state. In pharmacies, prices increased automatically after January, according to ABRAFARMA, the entity that represents the stores, because stocks are lean.

Looking a little further ahead, other surprises may appear and make this bill more expensive for consumers.

There is an ongoing debate in the states to increase the ICMS rate on Brazilians' international purchases, for shipments up to $50 made on foreign online marketplaces and apps. The tax could increase to 25% from 17% on the sale, according to initial discussions.

At present, it is the consumer who assumes the responsibility of paying the ICMS on products purchased from online marketplaces such as AliExpress, Amazon, and Shopee, directly through methods like card payments, instant-payment system PIX, or payment slips.

This 17% rate has been enforced since August by companies participating in the Remessa Conforme program (which establishes a set of rules for the advanced customs clearance of products in exchange for an exemption from import taxes for shipments up to $50), limited to international websites, after being previously exempt. Now, less than a year since its implementation, discussions about a potential increase are anticipated to take place in state assemblies this semester.

ICMS increases are a way for states to try to replenish their budgets, which have been affected since the pandemic.

Casas Bahia, Magazine Luiza, and Arezzo/Soma did not comment beyond what is already public. Assaí said it maintains strict expense control, citing the balance from October to December, and constantly seeks opportunities for efficiency improvements. It added that the ICMS increase is passed on directly to the consumer because the industry already includes the tax change in sales to retailers.

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

04/11/2024

ALMAVIVA BUYS 51% OF BRAZILIAN MAGNA SISTEMAS

Italian group reports that 75% of revenues are generated by digitalization business; in Brazil, AI has reduced the number of employees

Almaviva, an Italian group that operates with digitalization and relationship management services between companies and their customers, acquired 51% of Magna Sistemas, a Brazilian software and technology services firm, for R$340 million. With the acquisition, Almaviva seeks to expand its digital transformation business with a focus on public services in Brazil.

The acquisition of the remainder of Magna's capital, which is now called Almaviva Solutions, is in the Rome-based group's plans over the next five years, which would raise the purchase price to R$800 million, Almaviva CEO Marco Tripi told Valor. "We spent about two years evaluating technology companies in Brazil, and the company's management team led us to the decision [to close the deal]. We need high-ranking managers," said Mr. Tripi, who came to São Paulo to formalize the transaction.

The purchase of Magna does not end the Italian group's acquisition plans in Brazil, said Mr. Tripi without elaborating. The company, which operates in 11 countries, also seeks to increase the share of revenue generated outside Italy to 50% in 2026 from 30% in 2023, the executive said.

In Brazil, Almaviva has been diversifying its contact center and billing businesses, with more attention to the financial and services industries and less to telemarketing.

The focus on digital channels and the use of artificial intelligence, reducing human interactions, has led to a significant reduction in the number of contact center employees in Brazil.

In 2023 alone, the subsidiary reduced the number of employees in Brazil to 33,500 from 40,500. In Colombia, the base for contact center and billing services in Spanish-speaking countries, the headcount decreased to 36,000 last year from 42,000.

"We will eliminate 'commodity' jobs. It's challenging, but the company must evolve, and technological advancement may lead to a reduction in the number of employees," said Mr. Tripi.

On the side of technological evolution, according to the executive, the company's 15-year commitment to artificial intelligence has been bearing fruit. Last year, Almawave, a business focused on AI projects, reported net revenue of €57.5 million, up 20% from 2022. In the same period, net income of €9.29 million almost doubled, an increase of 92.7%.

In 2023, 75% of Almaviva's global revenue came from digitization projects, particularly in sectors like sanitation and public transport. Call centers accounted for 25% of the result. Revenue totaled €1.2 billion in 2023, up 20% year over year. Net income of €86.7 million represented a 15.5% increase during the period.

In Brazil, the proportion is reversed. Most of the revenue comes from customer management services and billing. But the plan is for other technology services, especially for public sector companies, to account for the bulk of revenues in the coming years.

In 2023, Almaviva reported net revenue of R$1.61 billion in Brazil, up 8.8% from 2022. Net income was R$152.5 million, up 18.5% year over year.

The acquisition of Magna was finalized by Brita S.A. The Brazilian company is 90% owned by Almaviva and 10% by the Italian company Simest, which supports overseas businesses. Simest is controlled by the Italian development bank Cassa Depositi e Prestiti (CDP).

The remaining 49% stake in Magna Sistemas, which was renamed Almaviva Solutions, remains with the founding partners. Adriano Dias, founding partner and chief executive of Magna, will continue to be in charge of Almaviva Solutions. Its 1,200 employees are expected to be integrated into AlmaViva's Brazilian subsidiary by August.

Magna Sistemas's clients include the Information Technology Division of the Civil Police Intelligence Department (DIPOL) of São Paulo and the São Paulo State Transportation Agency (ARTESP).

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

04/11/2024

U.S. AGRICULTURE SECRETARY SAYS CHINA FAVORS BRAZIL
Tom Vilsack suggested that this was taking place in retaliation against recent restrictions on foreign ownership of farmland in the country

U.S. Agriculture Secretary Tom Vilsack suggested that China could be favoring Brazil's soybeans and corn partly in retaliation against recent restrictions on foreign ownership of farmland in the country, according to Bloomberg News.

Recently, the Republican-led state of Arkansas forced Syngenta Ag, controlled by Chinese state-owned group ChemChina, to sell 160 acres (64 hectares). The move was made possible with a new law in the state that restricts ownership of local lands by certain foreign groups. The area had been owned by Syngenta since 1988, when it was not controlled by the Chinese.

According to the secretary, the U.S. saw a trade deficit of $6 billion in the first quarter. “Why would that be? Is it just Brazil, or was there a reason why the Chinese ag minister asked me about Syngenta?” Mr. Vilsack told the news agency.

The U.S. secretary said China’s agriculture minister had questioned him about Syngenta in recent conversations, which would have been a “signal.”

With China buying fewer crops from the U.S., Brazil has overtaken America as the world’s top corn shipper after already doing so with soybeans. Mr. Vilsack advocated that the U.S. diversify its exports to countries other than China, but maintain trade relations with the country.

Bloomberg said it reached out to the Chinese embassy in Washington but received no response. China’s commerce and agriculture ministries were also approached by the agency but did not respond.

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

04/12/2024

ATVOS TO BUILD BIOMETHANE PLANT
Company plans to invest more than R$350m in its first biomethane plant from sugarcane waste

Atvos, owned by the Arab fund Mubadala, is set to invest over R$350 million in establishing its inaugural biomethane production unit from sugarcane waste. An investment memorandum has been signed for the construction of the facility in Nova Alvorada do Sul, in the Brazilian state of Mato Grosso do Sul, the location of Usina Santa Luzia (USL).

This new unit is expected to produce 28 million cubic meters of biomethane each harvest. Currently, the plant at Nova Alvorada do Sul has the capacity to process 5.5 million tonnes of sugarcane and generate 498 million liters of ethanol annually.

Bruno Serapião, CEO of Atvos, highlighted that this initiative would signify the company’s foray into the renewable natural gas market, benefiting from large-scale production to satisfy increasing demand.

The aim is to utilize biomethane production to partially fuel the logistics fleet of Atvos and its agricultural affiliates, potentially reducing diesel usage by up to 40%. Any excess biomethane is intended for distribution to nearby municipalities.

In Brazil, most operational biomethane plants currently utilize their output for internal purposes rather than commercial sales. Out of 20 operational plants, only six are selling their produced gas, according to the Brazilian Biogas Association (ABIOGÁS). The association forecasts that in five years, there will be 90 commercially operating plants, with 42% anticipated to be within the sugar-and-ethanol sector.

The proposed biomethane facility by Atvos is undergoing engineering analysis for final approval, with construction expected to start within the year.

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

04/12/2024

BRAZIL EXPECTED TO START ETHANOL SHIPMENTS FOR SAF INDUSTRY THIS YEAR
Mills seek certification to qualify as suppliers of raw materials for sustainable aviation fuels

Brazil is expected to start exporting ethanol to the sustainable aviation fuel (SAF) industry this year. The volumes will still be small because, for now, there is only one SAF plant in the world focused on this technological path. However, according to Brazilian mills’ assessment, this market is expected to pick up steam starting in 2027. In addition, industry executives expect that 20% to 30% of all SAF that will be demanded by the end of this decade will be produced from ethanol.

Bioenergy company Raízen, a joint venture between Shell and Brazilian energy company Cosan, estimates that there is potential for the global ethanol industry to supply between 9 billion and 12 billion liters per year to the SAF industry by 2030, which would meet up to 30% of expected production.

Brazil may not be the sole supplier, but it has the potential to become the primary one, given that it represents half of the global ethanol trade. In addition, the SAF industry prioritizes renewable sources, which favors Brazilian sugarcane ethanol over U.S. corn ethanol, said Raphael Nascimento, trading business development director at Raízen.

Ricardo Carvalho, BP Bunge's commercial director, projects that Brazil will have the capacity to supply 5 billion liters of ethanol per year to the SAF industry within a decade. For comparison, he said that this projected volume of growth in national fuel consumption aligns with the expected increase in the Brazilian fleet.

The aviation industry's primary strategy to reduce carbon emissions is the substitution of fossil fuel with sustainable fuel, which features identical molecules and does not necessitate engine modifications.

The agreement led by the International Air Transport Association (IATA) provides that airlines will have to reduce emissions from all their international flights starting in 2027. This means that the SAF industry will already have to secure the necessary supply by then. The sector, which accounts for 2% of the planet's greenhouse gas emissions, bets that SAF will guarantee 65% of its decarbonization.

Ethanol is not the sole eligible raw material for SAF production and will face competition from seven pathways, including the more established vegetable and waste oils (HEFA) pathway in Europe. IATA studies, however, indicate that ethanol tends to be the most competitive option. A document from 2022 released by the organization indicated that, at that time, ethanol had the lowest minimum price required for sale, alongside fats, one of the HEFA options.

The first alcohol-to-jet (ATJ) SAF plant was inaugurated by LanzaJet in January in Georgia, U.S. Mr. Carvalho of BP Bunge mentioned that it may begin importing Brazilian ethanol to fulfill its demand.

The U.S. wants to produce 11 billion liters of SAF by 2030 and is likely to be the main short-term market for Brazilian ethanol for SAF. Another potential market is Japan, which last year set a goal of mixing 10% SAF with fossil kerosene by 2030. In Brazil, there haven't been any announced investments in SAF plants using the alcohol-to-jet process yet. However, companies like Raízen and ethanol trader Copersucar are already internally discussing the possibility.

According to Mr. Carvalho, the construction of SAF plans using the ATJ process will begin to increase next year, as the concept of the LanzaJet plant is demonstrated. However, significant scale gains are expected to take place only by 2027.

Brazilian mills, such as Raízen and BP Bunge, are seeking certification to supply ethanol to this industry—all, so far, from sugarcane. São Paulo's Zilor also wants to advance in this market and has already certified 90% of the sugarcane of two of its three units. As a result, it ensured the capacity to serve the SAF sector with up to 300 million liters of ethanol per year.

Fabiano Zillo, CEO of Zilor, suggests that the new demand from SAF could potentially fill any gap that may arise due to the transition of part of the automotive fleet from combustion vehicles to electric vehicles.

In Mr. Carvalho's assessment, sugarcane ethanol has more potential to meet the demand of SAF than corn, given its proximity to ports, which facilitates exports to promising markets, and due to the greater ease of tracking biomass, which guarantees a greater volume of ethanol eligible to serve the market.

Mr. Nascimento of Raízen argues that there is room to increase the production of sugarcane ethanol to meet the new market. According to him, if the sugarcane area in Brazil (10 million hectares) doubles, the supply of ethanol would triple since the focus of the mills would not be sugar.

He also believes that sugarcane will not be the only source. Corn ethanol "still has a journey to reach the minimum of carbon capture" and meet IATA requirements, he said.

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

16/04/2024

MONETARY POLICY COSTS RISE WITHOUT FISCAL ANCHOR, CENTRAL BANKER SAYS
Roberto Campos Neto said monetary authority's work becomes more challenging if fiscal policy lacks credibility

The work of the Central Bank becomes more difficult if there is a perception that there is no fiscal anchor, said Roberto Campos Neto, the president of the Brazilian Central Bank, during an event in New York on Monday. Asked how changes in fiscal rules affect the work of monetary policy, he explained that central banks have to refrain from making comments on fiscal policies.

However, he emphasized that “fiscal and monetary anchors go hand in hand, and whenever there is a change that makes the fiscal trajectory less transparent or less credible, it means having to bear higher costs on the other side. Therefore, the cost of conducting monetary policy increases.”

The president of the Central Bank noted, however, that the market “had a much worse outlook for the fiscal situation than the target actually adopted by the government.” Mr. Campos Neto added, “I have been saying for a long time that the ideal is not to change the goals and do as much as possible to achieve these goals.” But “if, for some reason, we have to change it, it’s very important to communicate well, because if people lose confidence in the fiscal anchor, the monetary anchor will be affected.”

The fact that the United States is postponing the start of the monetary easing cycle, with expectations consolidating around a higher rate at the end of the cycle, may begin to draw attention to the debts of the main developed countries, the central banker said.

“When we look at what happened in the U.S., people thought for a while that rate cuts would start in March. And when that doesn’t happen, the window basically moves in time as a result, and now that the [inflation and activity] data is disappointing [coming in stronger than expected], the terminal rate changes as a result.”

In his view, “there was a re-pricing of rates [by the market], but what we should observe and which will probably become the next big issue is that we are about to start a debate on global debt.”

According to the president of the Brazilian Central Bank, “the fact that the U.S. is now postponing the cycle, but also has a higher terminal rate, will make people talk about the debt.” Mr. Campos Neto cited that the largest blocs of developed economies—Japan, Europe, and the U.S. — have a sovereign debt representing a large proportion of the total global debt.

“If you look at the fact that they paid close to 1% [before inflation returned] on the debt rollover, and if that goes to 3%, it means a threefold higher cost on the largest debt on the planet. So I think the next topic we’re going to talk about is not the inflation window. Last year, when no one was talking about it, we mentioned that we didn’t see disinflation processes as smooth as some people were saying. Now agents are pricing to some extent that the cycle is going to be delayed a bit. The next big question will be about what happens to total debt.”

According to Mr. Campos Neto, “the fiscal policy is becoming less and less coordinated with the monetary [in most of the world].” For him, when we entered the pandemic, it was very easy to coordinate the responses. “You increase spending and reduce [interest] rates,” he said about stimulus programs

“But the end of that is being very difficult to coordinate. And there’s nothing more permanent than a temporary spending program. That was a phrase I borrowed from Milton Friedman. But you see it in many different places, and I think it will become a problem.”

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

04/16/2024

DNV ANALYZES OFFSHORE WIND POTENTIAL IN BRAZIL
Norwegian company says projects submitted to environmental agency total 190 GW

Celebrating its 50th year in Brazil, Norwegian consultancy DNV views the country as a strategic market in the medium and long term. While its main focus remains on oil and gas, the company recognizes the potential of future offshore wind energy generation, still pending regulation.

Celebrating its 50th year in Brazil, Norwegian consultancy DNV views the country as a strategic market in the medium and long term. While its main focus remains on oil and gas, the company recognizes the potential of future offshore wind energy generation, still pending regulation.

At the request of the World Bank, the company began an analysis last year of the scenarios of the offshore wind energy industry in Brazil. The initiative is part of the World Bank Group’s Offshore Wind Development Program, with support from the Energy Sector Management Assistance Program (ESMAP) and the International Finance Corporation (IFC).

DNV operates in risk management and project certification. It assists companies in meeting international safety standards, conducts risk assessments, and evaluates investment costs.

At least 96 offshore wind exploration projects have been submitted to Brazil’s environmental protection agency (IBAMA). DNV estimates that these projects total around 190 gigawatts, of which 50 gigawatts have been commercially evaluated by the Norwegian company.

The consultancy did not disclose which companies it was hired by. “Our work begins in an early phase, before these projects start operating, with analysis of the technical aspect and economic viability,” said Alex Imperial, vice president and regional manager of the DNV group in the Americas.

The consultancy said that the oil demand will decline after reaching a peak, but will not reach zero in 30 years. Therefore, the decarbonization of processes associated with oil and gas production is expected to become a window of opportunity. However, balancing global consumption and directing investments toward renewable sources is expected to be the industry’s biggest challenge in the coming years.

Brazil is well-positioned in the energy transition. “We see opportunities with onshore wind and solar energy, where we already have a strong position,” said the group’s global CEO, Remi Eriksen. “There is also great potential in offshore wind exploration due to the experience in oil and gas, which would generate more nautical activities to support it,” he added.

The full development of offshore wind activity in Brazil depends on regulatory frameworks. Bill 11247/2018 was passed by the Chamber of Deputies (Lower House) in November last year but still needs to be analyzed by the Senate. “We are working in workshops with the Ministry of Mines and Energy to assist in regulation. It is a role we have already played in other countries,” said Mr. Eriksen.

Petrobras, Yara, Modec, SBM, and Grupo OBC are among DNV’s main clients in Brazil, which ranks among the company’s top 15 markets. The operation in the country stands out for having one of the highest growth rates among the others, as highlighted by the group’s global CEO.

Mr. Eriksen spoke with Valor on Wednesday, during his visit to Rio for the company’s 50th anniversary celebrations in Brazil. In the Brazilian market, DNV has 300 employees and nine offices in six states: Rio de Janeiro, São Paulo, Minas Gerais, Rio Grande do Sul, Ceará, and Bahia.

According to the executive, revenues from the Brazilian operation grew by 65% between 2019 and 2023, while global growth was 50% in the same period. “During this time, we had COVID-19, which makes these 65% even more significant,” said Mr. Eriksen. “There is potential for growth in several sectors in Brazil,” he said.

With 160 years of history, DNV is present in 100 countries. Revenue ranking is led by the United States, Norway, Germany, the Netherlands, the United Kingdom, and China. In Brazil, the company operates in various sectors—such as food and beverage industries and healthcare companies—but the naval and energy sectors remain its main activities in the country.

“Norway discovered gas in the 1960s, and we started in Brazil in 1974. That is why oil, gas, and maritime transportation have been the main drivers of our growth here,” said the CEO. “Today, this is a very mature and well-regulated industry. These are the markets where we like to operate,” added Mr. Imperial.

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

04/17/2024

BRAZIL IS LOSING AI INVESTMENTS TO PARAGUAY, NVIDIA SAYS
Lower import taxes and proximity to Itaipu attract investors to Paraguay, executive says

Brazil is losing investment from European groups to its neighbor Paraguay in the expansion of data centers to support the advance of artificial intelligence (AI) using renewable sources.

The alert was made by Marcio Aguiar, Nvidia’s executive director of corporate sales in Latin America, in an interview with Valor, during the Web Summit Rio 2024, an innovation event taking place until Thursday (18) in Rio de Janeiro.

The U.S. manufacturer of graphics processing units (GPU) is a leading provider of computing capacity to supply the processing demand generated by AI. It held 83% of the data processing chip market in 2023.

“We have received requests from European companies that invest in data centers in Paraguay, a country with lower import taxes and which is close to [hydropower plant] Itaipu,” said Mr. Aguiar. Data centers are electric-intensive facilities. This situation has intensified over the last six months. “Brazil could take advantage of this current trend by reviewing some taxes to encourage companies to come here. That would be the big step,” he added.

Nvidia is also advancing in offering computing capacity to research institutions in the country and plans to deliver a second supercomputer to a Brazilian research institute in the coming months. Since 2015, the company’s Santos Dumont supercomputer has served the National Scientific Computing Laboratory (LNCC), in Petrópolis, Rio de Janeiro.

Nvidia also wants to set up a data center for Brazilian research institutions. “Why not centralize processing and deliver it to universities across the country remotely? It would be much more effective and less costly for the country,” the executive suggests. “There are several government bodies interested.”

In the corporate market, competition from microprocessor manufacturers and the entry of technology giants—Nvidia clients—such as Google and Microsoft in the AI chip segment do not seem to worry Nvidia.

“We are not fighting for market share but to open new markets,” said Mr. Aguiar in the opening panel of the Web Summit Rio, on Tuesday (16).

In addition to selling its chips to large cloud providers such as Google, Microsoft, and Amazon, and to local data centers focused on GPU servers, Nvidia is betting on demand from the biopharmaceutical, robotics, and digital twin industries. The latter, which is based on virtual representations of infrastructures that operate as in the real world, using AI, “is a game changer,” Mr. Aguiar points out.

Nvidia manufactures its chips exclusively through Taiwan’s TSMC, which is joining rivals such as Intel, AMD, and Samsung in announcing major chip manufacturing projects in the United States. Investments exceed $200 billion, using funds from the Biden administration amounting to $53 billion.

The launch of AI chips by Nvidia clients such as Google and Microsoft is seen as a natural move by the executive. “To date, we are the only company developing hardware and software platforms compatible with all cloud providers,” Mr. Aguiar claims. “No company wants to be so dependent on others. That shows the value of this market and how much we have been focused on the sector. For others, this is a new business for their use.”

Investors follow suit with this movement. A week ago (April 9), Intel released the new version of the AI chip, Gaudi 3, hoping to advance Nvidia’s dominance. As the news circulated, Intel shares on the Nasdaq began to rise, while Nvidia shares plummeted. But that has changed. Nvidia closed up 1.64% and Intel fell 0.14% on Tuesday (16) session. In the last 12 months, Nvidia shares gained 226.80%.

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

04/17/2024

EMBRAER’S EVE AIR TO START DELIVERING FLYING CARS IN 2026
EVE-100 has a backlog of 2,800 orders totaling $8.6bn; company awaits ANAC certification

The first full-scale model of the EVE-100 electric aircraft, developed by Embraer’s Eve Air Mobility, is expected to be ready by the end of 2024. The pilot project will be used to carry out the first flight tests of the electric vertical take-off and landing vehicle (eVTOL), which is under the regulatory stage at the National Civil Aviation Agency of Brazil (ANAC).

The schedule was unveiled to Valor by Embraer X CEO Daniel Moczydlower on Tuesday (16) at the WebSummit event in Rio de Janeiro. Commercial operation of the eVTOL should start in 2026, the year when the company expects the certification process by ANAC to be completed.

The testing and development stage aims to provide the agency with reports and data. There is no specific regulation yet for eVTOLs, as the model is new to international aviation.

According to Mr. Moczydlower, flight tests with the pilot model of the vehicle would start by the end of this year at the Embraer factory located in the municipality of Gavião Peixoto, São Paulo.

“One of Eve’s biggest competitive advantages is that it will use the entire Embraer infrastructure. That makes us faster, with a lower development cost,” he highlighted.

The electric aircraft project was originally incubated by Embraer X and is currently being led by Eve Air Mobility, a company listed on the New York Stock Exchange with Embraer as its main shareholder.

EVE-100 has a backlog of 2,800 orders, totaling $8.6 billion. Among its customers are helicopter operators, airlines, leasing companies, and shared flight platforms from all continents in the world.

Eve Air Mobility reported that, of the total, 335 vehicles were ordered in Brazil—100 by Avantto, 50 by Helisul, 50 by OHI (Revo), 40 by FlyBIS, 25 by Flapper, and 70 by Voar. “The first lot of orders should be delivered as soon as ANAC certifies the vehicles,” said Mr. Moczydlower.

“We expect to produce few units in the first years and accelerate the pace in 2027 and 2028,” the CEO added. The first factory will be set up in Taubaté, São Paulo. The business model does not include direct sale of the aircraft to individuals. Commercial use is expected to be similar to air taxi companies, with flights of 10 to 15 minutes.

The potential of the urban air mobility market in the world is estimated at two billion passengers per year from 2030 to 2035, according to Embraer X. The company plans to democratize air transport with short-haul urban trips at affordable prices.

“We are estimating that flights could come to a price range that would not be much higher than what you would spend in a taxi stuck in traffic for two hours,” said Mr. Moczydlower.

Shared trips, the use of electric batteries, and the cost of maintenance are regarded as some advantages of Embraer’s eVTOLs. The vehicle will be fully electric and capable of transporting four passengers plus the pilot for up to 100 kilometers.

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

04/22/2024

PHARMA INVESTMENTS BLOCKED BY HEALTH REGULATOR’S LACK OF ANALYSTS
ANVISA has about R$6bn in new drugs waiting for analysis and another R$11bn under consideration

The pharmaceutical industry has nearly R$6 billion in potential investments pending analysis by the National Health Surveillance Agency (ANVISA). Another R$11 billion is being analyzed, but there has been no response so far.

The survey was carried out by Grupo FarmaBrasil, the trade association representing companies in the sector. The calculation took into account two factors: requests for approval of medications under review or halted, and the average market value for each category of products.

By categories, R$9.4 billion of the drugs under analysis or awaiting analysis are biological, R$4.1 billion are new and innovative, R$4 billion are generics, R$205 million are non-synthetic, and R$31 million are herbal medicines.

Brazilian Development Bank President Aloizio Mercadante was the first to draw public attention to the issue in February. At the time, he suggested hiring reviewers to speed up the evaluation process. “There are R$17 billion in investments in ANVISA,” he said at the inauguration ceremony of the president of the Brazilian Agency for Industrial Development (ABDI), Ricardo Cappelli. At the time, Mr. Cappelli also advocated greater “efficiency” of regulatory agencies “to leverage private investments in Brazil.”

Measures such as expanding the number of ANVISA employees are necessary to “generate a workflow and regular approval” of medicines in order to offer “predictability” to the industry, said Adriana Diaféria, vice president of FarmaBrasil. She said the federal government “is committed to strengthening research, technological development, and innovation in the country.” She also sees the public test announced to hire 50 specialists in health regulation and surveillance by ANVISA as positive. “But it’s not enough to meet all demands,” she said.

In a note, ANVISA also attributes the sluggishness to the lack of employees. “The long queue periods to which drug candidates are submitted in the country are not the result of inertia of the agency’s managers and employees, but of the number of workers incompatible with the size of the Brazilian drug market,” the regulator said, highlighting “the drug development and manufacturing capacity of the companies operating in the country.”

ANVISA said that between 2007 and 2023, the number of employees fell to 1,491 from 2,360. Of this group, only 187 work to approve or not drugs. The U.S. Food and Drug Administration (FDA) has 6,815 “employees with regulatory and authorization skills,” according to ANVISA. Thus, the average time for drug approval is 776 days in Brazil, compared to 245 days in the U.S. The Brazilian queue is also longer than in Japan and Canada (301 days) and Australia (350 days).

Despite the insufficient number of servers, ANVISA “has been adopting mechanisms” to accelerate approvals, “maintaining the international standard of quality, effectiveness, and safety verification.” Among the measures, it highlights the use of agency evaluations “with standards and regulatory practices equivalent” to those of ANVISA; joint evaluation with foreign agencies; and implementation of the company’s pre-qualification program, a model similar to that of the Federal Revenue’s Authorized Economic Operator.

In a statement, the Ministry of Management and Innovation in Public Services highlighted that the government will hire 50 specialists in health regulation and surveillance. In addition, at the end of last year, the ministry started a debate with “the workers of the regulatory agencies, including ANVISA, as part of the negotiation process to handle specific demands of the category.”

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

04/23/2024

LOMBARD ODIER TO GROW IN BRAZIL WITHOUT ACQUISITIONS
Swiss group shapes organic expansion strategy to maintain boutique service

With $351 billion in wealth management globally, Swiss private banking firm Lombard Odier wants to grow in Brazil with no acquisitions. All foreign groups that achieved a relevant share in this segment took shortcuts through acquisitions. That was the case with Credit Suisse, now owned by UBS, and Julius Baer Family Office.

Frédéric Rochat, a partner and executive at the bank since 2012, explained that the current group is the outcome of the 2000 merger between two centuries-old family-held financial institutions: Lombard Odier and Darier Hentsch. No other consolidation movement has been taken since then and the group has grown organically. The same logic will prevail in Brazil, where the private banking firm opened its office in 2020, during the COVID-19 pandemic.

"[Organic growth] is at the heart of Lombard Odier's model. We are not listed [on the stock exchange], we are a privately held firm structured as a partnership. That is the best quality growth we want to achieve, always organically," said Mr. Rochat, who spoke with Valor at the firm's local office during a recent visit to Brazil. "Critics will say it is too slow, that it would be better to make acquisitions. We say yes, it is slower, you need to be patient, but it allows us to build lasting quality in the way we develop the customer base and the team. We can handpick our customers, and new team members, and integrate them into our culture."

According to Mr. Rochat, the wealth management industry, not only in Brazil but also in Europe and worldwide, is going through ramifications. "We see wealth management players becoming bigger and bigger, going through strong consolidation. We take a different approach. We like to keep it human size."

The executive points out that $351 billion in investor funds is a small amount compared to the size of large financial groups—UBS and CS combined total some $4 trillion. But Lombard's size, according to Mr. Rochat, allows the firm to get to know every customer "individually and personally." Financial conglomerates tend towards standardization, he says, which is why the plan is to continue as a privately-held boutique.

"Going public would be good for acquisitions, to increase equity. But that could bring natural tension, with short-term pressures to report the best results for shareholders versus the long-term interest of customers," Mr. Rochat explains. "Due to these pressures, many large banks view the wealth management business as a product distribution channel. We don't perceive ourselves as product sellers. We offer the best possible long-term advice, we are trusted advisors. Customers are smart, they know what type of model they prefer."

The executive points out that, although the firm is physically new to Brazil, relations with the country span almost eight decades serving Brazilian businesspeople and their families from its base in Geneva. "Opening an office in São Paulo was a natural step considering our strong commitment to get closer and provide investors with greater convenience," Mr. Rochat said. "We are very pleased with the customer base we are developing in São Paulo, we are on target. Brazil is a strategically important market. We respect its economic performance and admire the country's entrepreneurial fabrics."

The executive did not disclose specific goals for the local operation. However, a fair slice would be 1% to 2% of the volume the group has under its umbrella globally, according to Marc Braendlin, Lombard Odier's head in Latin America.

The goal, according to Mr. Rochat, is not to go head-to-head with the large private banking groups operating in the local market, but rather to complement the offer with alternatives in a strong foreign currency, including assets with a focus on sustainability.

He is aware that competing with Brazilian interest rates and unmatched returns above inflation is not trivial for a foreign wealth management firm. But he believes there is a willingness for diversification among businesspeople who already have exposition to risk in Brazil, whether in illiquid alternatives, linked to the real economy abroad, or in liquid options, as international bonds now offer more attractive rates. "Many businesspeople want to increase their exposure to private assets. And the biggest markets are still the U.S. and Europe."

Mr. Rochat understands the sustainable approach as the asset manager's ability to map the paths of climate transition and identify which companies will emerge stronger to be included in the portfolio while removing the ones that will lose ground. "Entire economic systems or sectors will be turned upside down. Some companies will emerge stronger, others will have their business models seriously challenged."

Behind that is the belief that responsible practices tend to be a driver of financial performance. However, having a great environmental, social, and governance (ESG) score is not enough.

In this field, Brazil could act as an attractor of foreign capital, a type of exposure that Lombard Odier could have through international private equity managers listed on the stock exchange to fund local projects. "For Brazil, one of its priorities in the coming years will likely be creating the right economic environment to increasingly attract direct investments," said Mr. Rochat.

That is not an easy market for foreign capital, Mr. Braendlin adds, although he sees potential in sectors such as energy, infrastructure, and logistics. "It is not enough, there are many other countries that lack investments."

A curious note, according to Mr. Rochat, is that the first contact between Lombard Odier and Brazil dates back to 1870 when the firm engaged in underwriting a public offering to back the first oil and gas company in Rio de Janeiro. At the time, the crown granted concessions for oil and mineral exploration for 90 years.

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

04/24/2024

BRAZIL IMPOSES QUOTA, INCREASES TAX ON IMPORTED STEEL
Purchases from abroad gained importance last year with an increase in imports from China

On Tuesday (23), Brazil's Chamber of Foreign Trade (CAMEX) approved two measures targeting imports of 11 steel products: the establishment of quotas and a new import tax rate. A 25% tax rate will be applied only to quantities exceeding the average import volume of these products by 30% from 2020 to 2022. This update was announced by the Ministry of Development, Industry, Trade and Services (MDIC) following a meeting of the Executive Management Committee (GECEX) of CAMEX. Prior to this decision, the import tax rates were 10.8% or 12.6%, varying by product.

The ministry indicated that these changes are expected to take effect in about 30 days, pending review by other Mercosur countries. According to an MDIC statement, "the process also involves adjustments with the Federal Revenue Service and the publication of an ordinance to regulate the quotas."

If approved, the measure will be in place for 12 months. Moreover, the CAMEX is still evaluating the status of four additional steel products, which may eventually receive similar treatment.

In recent months, Brazil's steel imports, especially from China, have surged, highlighting a conflict between two significant sectors of the national industry. Brazilian producers argue that these imports are detrimental to their business, while manufacturers in the automotive, machinery, electronics, and equipment sectors contend that higher import taxes would increase the prices of their products.

Government sources have recently noted that there has been "very high" pressure from both sides to address their concerns. Similar issues have affected economies in other countries, including the U.S., due to rising Chinese steel exports.

Last year, Brazil imported steel products worth $1.6 billion, which are now subject to quotas, with China accounting for 83% of those sales.

In September, the CAMEX had increased the tax on 12 foreign steel products by 10%, reversing a cut made in 2022. At that time, the MDIC justified the increase as a "response to the concerns of the domestic steel industry, given the substantial rise in imports at prices often subject to unfair practices in recent years."

At a press conference following the CAMEX's recent decision, Vice-President and Minister of Development, Industry, Trade, and Services Geraldo Alckmin expressed the government's expectation that "a large part" of the imports of the 11 products would fall "within the quota." He supported the changes approved by the CAMEX, noting that steel companies had initially requested a rate increase for 31 products, an even more significant number. "Some industries [steel mills] are operating with more than 40% idle capacity," he remarked.

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

04/24/2024

MAJORITY OF BRAZILIAN MICROENTREPRENEURS EMPLOYED ELSEWHERE
Research exposes program flaws, calls for labor cost cuts to combat informality

More than half of the so-called individual microentrepreneurs (MEIs) in Brazil work as salaried employees for other companies, research shows. The study indicates that the so-called "pejotização"—hiring of workers as firms rather than individuals—could be reduced with measures such as cutting labor costs on the payroll.

The survey conducted by Bruna Mirelle Alvarez, a researcher at the São Paulo School of Economics of the Getulio Vargas Foundation (FGV EESP), reveals that 53% of MEIs—part of a government program initiated in 2008 to empower millions of small businesses—are not genuine entrepreneurs. This highlights flaws in the program's structure, leading to unintended consequences such as informal employment and significant losses, particularly for Social Security.

The study analyzed data from 2008 to 2019, a period during which over 9 million MEIs were established, comprising nearly 70% of all registered businesses in Brazil. To arrive at these findings, the researcher initially investigated the competitive dynamics between MEIs and formal employment contracts for companies' recruitment preferences. This analysis involved examining how the proximity to 3G antennas influenced the establishment of MEIs between 2008 and 2011, a time when online registration became available.

“Having access to the internet is essential for microentrepreneurs. They need it to register the company, issue the Document of Tax Collection paid every month, and also the tax receipts for each service,” said the economist.

The findings also establish a connection between the accessibility of opening an MEI and firms' hiring practices. Companies situated in areas farther from the antennas tended to employ more workers under the formal regime compared to those in closer proximity to the equipment.

However, Ms. Alvarez said that the effect of the reduction in the number of formal contracts and the increase of MEIs could also suggest a rise in entrepreneurship, aligning with the original intent of the program. “It's important to note that solely based on this analysis, we cannot determine if these individuals were shifted towards informal employment,” she said.

To ascertain which paths individuals pursued, the researcher constructed a general equilibrium model wherein individuals decide between becoming salaried employees, informal workers, microentrepreneurs, or employees of formal sector companies. This model was fed with data from the National Registry of Legal Entities and the 2010 Census. By simulating how this model adjusts to real economic data, including the distribution of workers in firms over time, it revealed that 53% of those opting for the MEI route choose informality, while 47% evolve into “genuine” microentrepreneurs.

“Based on the results, I believe that the cost of the formal work contract is an important factor. Reducing these costs would be a good measure to help reduce these illegalities related to the labor market,” she said.

Other recent studies also point to problems in the design of the MEI, created in 2008 intending to formalize people who work as freelancers or in small businesses. It allows them to contribute to Social Security and access benefits such as retirement—limited to one minimum wage—, sickness benefits, and death pension.

A recent study by researchers at the Brazilian Institute of Economics (FGV Ibre) showed that the MEI accounts for almost all the growth in the number of business taxpayers numbers in Brazil, to 3.9 million in 2023 from 750,200 in 2009. Looking only at 2021, a year in which there was a peak in the creation of MEIs—they showed that 63% of them had been laid off from a formal job. Within this group, only 22.6% of the layoffs were at the worker's request.

Another Ibre study, from 2022, showed that 31.3% of MEIs had completed higher education, a proportion much higher than the national average of 15.7%. Meanwhile, those with no education or incomplete elementary education—the program's target audience—were only 13.4%. At the same time, looking at income, researchers found that 56.4% of MEIs earned more than two times the minimum wage in the third quarter of 2022, a percentage higher than that of employees with a formal job (32.1%).

“This explosion in the creation of MEIs may seem like a leap in entrepreneurship, but in reality, it is just a different form of insertion into the labor market, cheaper and more attractive. And with the aggravating factor that it contains a large subsidy to Social Security, which one day will have to be paid,” said Fernando de Holanda Barbosa, an Ibre researcher.

Due to its focus on the vulnerable population, the program has high government subsidy. In the case of contributions to social security, it is limited to 5% of the minimum wage for MEIs (R$70.60 in 2024). Whereas the salaried worker earning the minimum wage for Social Security contributes up to 34% of the salary, shared between employee (7.5% to 14%) and employer (20%).

The significant gap between contributions puts pressure on the Social Security system. Rogério Nagamine Constanzi, an expert in the field, estimates that the actuarial deficit of the MEIs could reach R$1.4 trillion in the future. According to his calculations, although MEIs represent approximately 10% of contributors to the Social Security Regime, their contribution to revenue is only 1%.

“It is worth remembering that a contribution of around 30% is precisely what makes Social Security actuarially sustainable over time. If there were a total migration to the MEI, it would not be solvent,” said Mr. Barbosa, with Ibre. “Because it is a relatively new modality, it has not yet affected pension payments. But this cost will come.”

Ms. Alvarez's study conducted simulations of four hypothetical scenarios aimed at reducing the phenomenon known as “pejotização”: terminating the MEI program, eradicating informality, enhancing oversight, and cutting labor costs. All these scenarios led to an improvement in overall welfare, defined here as the combined sum of profits, wages, and taxes paid. However, the most effective measure proved to be a 20% reduction in payroll taxes. Despite this, it resulted in only a slight decrease in the total number of MEIs in the economy, to 60.9% from 61.5%. Additionally, while the percentage of informal workers in the labor market would drop to 32.4% from 33%, their proportion within the MEI community would increase to 54% from 53%.

Unlike the other scenarios, there is also an increase in the salary of both formal workers (2.4%) and informal workers (4.9%).

"As the tax on payroll is reduced, this increases demand for these workers and, thus, their salaries. With this, part of the MEIs who were previously entrepreneurs or informal workers move to salaried employment," said Ms. Alvarez. "With fewer informal workers in the economy, the salary offered to them increases, and this balances the proportion of MEIs choosing to be informally employed."

For the researcher, the results also raise the question of whether "pejotização" does not represent a new structure in the labor market, albeit illegal. "It's bad in terms of labor rights but, perhaps even more so after the pandemic, people may be more willing to accept this type of arrangement, which brings more freedom in terms of working hours, and less bureaucracy in dealing with the company."

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

04/25/2024

GOOGLE BANS POLITICAL ADS IN BRAZILIAN ELECTIONS
The company announced that its content policy will be updated in May

Google is set to ban political ads in Brazil for the 2024 municipal elections following the Superior Electoral Court (TSE) update to the rules for boosting electoral advertising in February. In a statement, Google announced that it would revise its Google Ads political content policy to "no longer allow political ads to be served in the country." This information was initially reported by "Poder360" and later confirmed by "O Globo."

"This update will take place in May, coinciding with the enforcement of the electoral resolutions for 2024. We remain globally committed to supporting the integrity of elections and will continue to engage with authorities on this matter," the company stated.

Resolution 23732, amending the rules on electoral ads established by the Electoral Court in 2019, includes a definition of "political-electoral content" that Google considers overly broad. According to the Court, this type of ad encompasses topics such as elections, political parties, federations and coalitions, elective positions, individuals holding elective positions, candidates, government proposals, bills, the exercise of voting rights, and other political rights, as well as issues related to the electoral process.

The Electoral Court mandates that digital platforms providing services to boost this type of electoral content must maintain a repository of the ads to monitor, in real time, the content, expenditure, payers, and demographic profiles of the audience targeted by the advertising.

Platforms are also required to offer an "accessible and easy-to-use query tool that allows advanced searches of the repository's data" using keywords and advertisers' names, among other criteria.

Furthermore, the Court prohibits the paid prioritization of content that promotes negative information about other candidates or "disseminates false data, fraudulent news, or news that are notoriously untrue or seriously out of context, even if they benefit the user responsible for the boost."

The TSE's rules must be implemented within 60 days of their enactment for platforms already offering the ad boosting service, and they are applicable even in non-election years.

Google, a subsidiary of Alphabet, which reported a net profit of $73.79 billion in 2023 (a 23% increase from the previous year), argues that moderating such a vast number of ads would be unfeasible, especially in an election involving over 5,000 municipalities. The company also expresses concern that the broad scope of the definition might lead to uncertain moderation practices.

In 2020, a year marked by a brief campaign period and pandemic-related restrictions, "O Globo" reported that candidates had spent R$36 million on boosting internet content for that election. The most significant expenditures were by three companies: Facebook, which also manages Instagram; Adyen, the fintech responsible for the platform's payment system; and Google.

In 2022, politicians spent nearly R$127 million on advertising on Google, according to the company's report. From the start of that year to the date of the second round of the presidential election, 53,482 ads were displayed on the big tech platforms. The campaign of former president Jair Bolsonaro spent the most that year, with R$28.7 million, followed by President Lula's campaign, which spent R$22.8 million on Google and YouTube.

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

04/29/2024

AGRICULTURAL COOPERATIVES EXPAND INVESTMENTS IN INDUSTRIAL PROJECTS
Leaders in the sector in Brazil, who announced investments of R$3.8bn in 2023, will prioritize industrial projects in new disbursements totaling R$7.4bn

Despite a profitability decline in 2023, due to commodity price fluctuations, agribusiness cooperatives remain keen to invest—particularly in industrial projects aimed at adding value to their products. Among the largest cooperatives in the sector, Coamo, Lar, Aurora, Comigo, Cocamar, C.Vale, Frísia, and Coopavel have announced this year that they will invest R$7.4 billion in the industrial segment, according to data from Valor Data. In some cases, these investments will continue until 2026. Last year, these cooperatives announced investments of R$3.8 billion.

The increase in investments, even amid a depreciation of key products for the cooperatives, such as soybeans, will be possible thanks to their strong results in previous years. "The cooperatives are being called upon to use their reserves or seek financing to support the planting of the harvest or the expansion of the business, in light of the profitability loss of the members," said Fabio Silveira, managing partner at MacroSector.

According to the economist, in 2024, the margins of the cooperatives will remain pressured by the low price of grains, the crop failure in Brazil, and the decrease in Chinese imports of meat. In 2023, the operating margin of the 15 largest cooperatives in the country dropped by 1.4 percentage points to 4.8%, and the net margin by 1 percentage point to 3.4%.

Coamo will disburse R$3.5 billion between 2024 and 2026, the largest investment announced this year. Last year, the country's largest agricultural cooperative invested R$569.7 million in a feed mill, warehouses, and offices. Of the volume forecasted for the current triennium, the cooperative will allocate R$1.67 billion to a corn ethanol plant capable of processing 600,000 tonnes of grain a year. It will also build four warehouses, add 500,000 tonnes to its storage capacity, and modernize processing units.

Goiás-based Comigo will invest R$1.3 billion by 2026 in an industrial plant in Palmeiras de Goiás with the capacity to process 5,000 tonnes of soybeans daily. The plan includes a terminal on the North-South Railway, with a capacity for loading 80 wagons per month, and forest planting for wood production to fuel the industry's boilers. "We are waiting for the permits to start the construction. The expectation is that it will be operational by 2027," said Antonio Chavaglia, Comigo's chair.

Cocamar, which invested R$315 million in 2023, announced this year that it will make investments of up to R$1 billion. Half of this amount will be used to expand by 50%, to 1.5 million tonnes per year, the soybean crushing capacity at the factory in Maringá, Paraná. The rest will be used to increase storage capacity.

After R$2.7 billion invested over the past three years, Aurora announced investments of R$783.4 million in 2024. The resources were for expanding and upgrading factories and for purchasing industrial plants. This month, Aurora inaugurated a meat processing unit in Chapecó, Santa Catarina, that consumed R$587 million in own resources and financing from the Brazilian Development Bank (BNDES/Finep).

C.Vale will expand its feed production capacity to meet the demand of its members, mainly for feeding chickens, according to the cooperative's president, Alfredo Lang. In 2023, C.Vale completed an investment of R$1 billion in a soybean crushing unit in Palotina, Paraná, with a capacity to process 60,000 sacks of soybeans a day.

Together with Amaggi and Tecnobeef, Coopercitrus is investing an undisclosed amount to create a company that produces organomineral fertilizers in Altair, São Paulo, with a capacity of 200,000 tonnes annually. "This year, we are focused on consolidating our business and vertical integration in organomineral fertilizers, in line with our sustainability goal," said Fernando Degobbi, CEO of Coopercitrus.

Castrolanda and five other cooperatives—Agrária, Bom Jesus, Capal, Coopagrícola, and Frísia—invested R$1.5 billion between 2021 and 2024 in the construction of Maltaria Campos Gerais, which can produce 240,000 tonnes of malt per year and is expected to be inaugurated next month.

The cooperative will also start the operation of Queijaria da Unium, a cheese factory joint venture with Frísia and Capal. The project included an investment of R$460 million in the unit, which will be able to produce 96 tonnes per day. "We consider this a year of preparation for sustainable growth," said Willem Berend Bouwman, Castrolanda's chair. The disbursements from

Castrolanda were not included in the total of the projects because they involved resources from cooperatives that were not part of the group analyzed by Valor Data.

With these investments, the cooperatives aim to sell products with higher added value, thereby improving their profitability. In 2023, according to Valor Data, the net income of 15 of the largest national agricultural cooperatives fell by 23.6%, to R$6.08 billion.

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

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DELAY IN U.S. MONETARY EASING BOOSTS BRAZILIAN BONDS
Review of prices following more conservative tone in the U.S. monetary policy opened opportunities in inflation-indexed bonds

The sharp movements in interest rates on U.S. Treasury bonds in April led to a review of prices worldwide. In Brazil, that translated into higher premiums for fixed-income investments. Tesouro IPCA+, an inflation-indexed National Treasury note, is once again yielding 6% above inflation, while long-term, fixed-rates bonds are at 12%, compared to the 10.75% per year of the Selic policy interest rate. As the U.S. Federal Reserve delays its monetary easing cycle, these securities appear in the main recommendations by market experts for May. As a result, a more consistent performance has been delayed in the stock market and other risk assets.

Until Monday (29), the benchmark stock index Ibovespa had lost 0.6%, while the small caps index fell 5.8%. The dollar appreciated nearly 2% against the real. All fixed-income indices were below the month's CDI (the interbank deposit rate, used as an investment benchmark in Brazil). Year to date, the best result was seen at IMA-B 5, comprised of inflation-indexed Treasury bonds maturing in up to five years, which is up 2%, compared to 3.5% for the reference rate. So far, floating-rate bonds offer the best return free of credit risk. ANBIMA's debenture index is up 4.7%. The index by the Brazilian Financial and Capital Markets Association is comprised of securities linked to the CDI.

At the beginning of the year, the market expected that the Fed could start its interest rate reduction cycle in June. However, reality set in, as the U.S. economy has shown a stronger-than-anticipated performance driven by hefty consumption and a tight job market, according to Luciano Telo, chief investment officer for Brazil at UBS Global Wealth Management.

April marked the recalibration of expectations, with consequences for assets in general. "The scenario points to high interest rates for longer and stronger activity. It's now possible that we won't see any cuts or just one or two ahead," said Mr. Telo. In light of the market, the executive says that, as long as U.S. Treasury bond rates remain attractive, other assets are unlikely to take off.

He points out that, under last week's pressure, 10-year U.S. Treasuries rates hit 4.6%, a level seen on September 2023, before the Fed changed its statement to indicate a more easing stance starting in November. "To bet on interest rate cuts again, we need to see a sequence of data that could bring more confidence to the market and the Fed, a more prolonged sequence of inflation moving into a favorable territory," he said.

The expected reaction in Brazil, also driven by a looser fiscal target, is that the Selic will now fall by 25 basis points at the next meeting of the Monetary Policy Committee (COPOM), a slower pace than the 50-bp cuts seen recently. "Concern arose in the market that, if Brazil started to cut its interest rates at a faster pace than the rest of the world, of 50 bp, the lack of synchronization could appear in the foreign exchange, removing the [larger] spread of rates," said Mr. Telo.

According to him, there would be room for further cuts, but the Central Bank will look at interest rates globally and the Fed's signals. "Therefore, the timing of cuts in Brazil may hinge on what happens abroad."

Although the most recent inflation figures came in line with market expectations, a single-digit Selic is unlike in the short term.

In this environment, many asset classes are favored by spreads, and less to capture capital gains, he says. That is the case with fixed-rate and inflation-indexed bonds. The higher opportunity cost also works to delay a more solid recovery for the stock market. "Part of the market's perspective was that, as interest rates fell, the appetite for risk in the domestic portfolio could increase. However, prolonged high real interest rates delay a pronounced bet on stocks."

The price of National Treasury notes series B (NTN-B or Tesouro IPCA+) indicating rates above 6% and fixed-rate three-year bonds reaching 11% is considered attractive from a historical perspective, the UBS executive adds.

For Mr. Telo, it will take at least two or three weeks of less volatility in U.S. Treasuries—a performance based on macroeconomic data—to create a more encouraging scenario for placing risk in investor portfolios.

The recent increase in future interest rates in Brazil opened an opportunity to expand exposure to fixed-rate public bonds, the National Treasury Bills, said Luís Augusto Barone, partner and director at Galapagos Wealth Management.

“The premium rose way beyond the news would suggest. I usually say investors should spend only 20% of their time in fixed-rate securities. Only a few times will the bond market give enough return, and now is one of these times.”

His current recommendation is towards securities maturing in three years. On Monday (29), among Treasury notes, the LTN maturing in 2027 paid 10.78% per year, compared to the current 10.75% for the Selic. If the rate decreases at least another 0.50 percentage points, there would be a gain to be captured over the CDI just with the appreciation of the securities. “There is a premium, it makes sense to allocate 5% to 8% of the portfolio,” Mr. Barone said.

The executive points out that inflation data allows the Central Bank to maintain the roadmap to reduce the Selic by 50 bp at the next COPOM meeting.

On the stock market, the recommendation has been to allocate up to 5% of the portfolio, but investors resist. According to Mr. Barone, investors have been spoiled by the net interest rate spread and expect a big check every month. “They are very risk averse,” he said.

In the high-income retail banking segment, the main position is in credit, which responds to 60% to 70% of the portfolio, depending on the firm’s profile. “A tax-exempt bond is a bad incentive for Brazil,” Mr. Barone acknowledges. He expects the long-term trend for the net interest rate spread over public bonds to fall, with an increased demand for such securities.

The changes in the speech by Fed Chair Jerome Powell have increased investors’ willingness to take risks globally, with the United States acting as a major attractor of funds for bonds or the stock market, said Alexandre Silverio, founding partner and chief executive at Tenax Capital. “The Fed rate at 5.25% with the two-year rate near 5% is a high interest rate. That attracts capital from all over the world. We rely on the Fed’s decision.”

In this environment, the hypothesis of the Selic rate at 9% with the foreign exchange at R$4.8 per dollar is now ruled out. “The scenario has changed. A stronger U.S. economy points to a stronger dollar, which pressures the real, not to mention domestic issues, with fiscal discussions ahead”, the asset manager says. “The Central Bank will have to balance. The higher exchange rate [in Brazil] could hit inflation.”

Still, Mr. Silverio sees room for the COPOM to reduce the policy rate at least three more times, by 25 bp each. “Let’s see where the foreign exchange ends up, it’s a key variable.”

The COPOM will meet again next week, with new inflation data and a Fed meeting on the table—the Federal Open Market Committee (FOMC) meets on Wednesday (1). The executive holds positions in shorter-term bonds in Brazil, believing that there is a little more room for the Selic to fall than the market assumes in its current prices.

On the stock market, at least in the macro multimarket, his choice was to have no exposure.

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

04/30/2024

CASAS BAHIA’S REQUEST FOR OUT-OF-COURT RESTRUCTURING APPROVED
Market harbors doubts, however, about the retailer’s ability to emerge from reorganization

Casas Bahia’s request for extrajudicial restructuring was approved Monday night by a São Paulo court, marking an attempt by the retailer to close this chapter and convey to the market that its focus is now squarely on operational recovery. However, market concerns remain about execution and the network’s ability to restore its financial performance, which is crucial for meeting its obligations to creditor banks.

As Valor reported on Monday, the backdrop of credit line cuts by foreign insurers—which protect the industry from sales risks—is among the challenges in turning the page. During a conference call with investors on Monday, the company management team detailed the plan, and the stock closed the session up 34.2% at R$7.3. The surge reflects not only the stock’s months-long decline but also optimism about the plan, despite cautious stances concerning its execution.

“We are aware of the challenge. No one here believes it will be easy,” said CEO Renato Franklin on Monday. “However, restructuring our debts with the banks provides us enough time to work and allows management to focus on operations.” According to him, the company also gains time to navigate the current high-interest environment, even after the drop in the Selic key interest rate and the still weak demand in the durable goods retail sector.

The plan only involves unsecured debts with financial sector creditors. Suppliers and employees are not part of the deal, as it is not a court-supervised reorganization that encompasses all liabilities.

Under the proposal, the renegotiated debt with these creditors pertains to four bond issues and one Bank Credit Bill, totaling R$4.1 billion, with extended terms from 22 months to 72 months, including a two-and-a-half-year grace period for the principal. This arrangement reduces cash outflow through 2027 to R$500 million from R$4.8 billion.

The debt will be converted into a debenture issue of R$4.1 billion, with two series (part can be converted into shares). At the end of 72 months, the chain expects to save R$60 million annually in debt interest.

Banco do Brasil and Bradesco hold 54.5% of this liability and have already approved the plan, in negotiations that have been ongoing since mid-last year. Therefore, the restructuring request and the 159-page plan were submitted last Sunday to the 1st Bankruptcy and Judicial Recovery Court of São Paulo and were accepted early Monday evening. Despite being an out-of-court reorganization, the court must review the request.

The expectation is for a “cleaner” first quarter of 2024, said Mr. Franklin, without the burden of maturities, with operational issues better addressed. The retailer has been in operational restructuring since the beginning of 2023.

Even with this expectation, there are still some issues on the company’s table that need to evolve. Casas Bahia had problems with product supply from major manufacturers in categories such as appliances and electronics at the end of last year and the beginning of this year when it sought to replenish stocks. This reflected a reduction in lines from foreign credit insurers and suppliers.

According to sources, the tighter credit situation continued at least until February. Negotiations are ongoing in search of normalization, but this credit flow is still not ideal, in the view of the management board. “If we had the lines of credit, we would have sold more [in recent months],” said a source.

No major foreign supplier, such as Whirlpool, Samsung, LG, and Motorola, closes a deal to supply to national retailers without insurance coverage of some percentage of the sale. The crisis in the Americanas retail chain made insurers more selective.

The recovery plan and the recent improvement in the network’s cash generation may create space for normalization of these lines, believes a person close to the retailer. In November, a rating downgrade of Casas Bahia by S&P helped reduce this credit flow.

Regarding the deal with Bradesco and Banco do Brasil, the institutions wanted to definitively remove the “Casas Bahia risk” from the table, Valor has learned. The idea was to move away from temporary solutions, which would push the issue a year or two forward, to something more “definitive,” said a source.

In February, there was a debt restructuring anchored by Bradesco and BB, but with difficulties for the group to raise new funds, and with short-term bond maturities, the chain had to return to the negotiating table. More than R$1.5 billion in debentures with the banks were due this year.

From the banks’ perspective, piecemeal renegotiation solutions “here and there” would only delay a stronger dose of medicine, people familiar with the talks say. “If a broader agreement were delayed too much, the timing that still existed could be lost, and then only a court-supervised reorganization plan, which is the worst scenario, would resolve it,” said a creditor.

In negotiations with the institutions, one of the issues demanded by the banks concerned advancing the migration of the Direct Consumer Credit Line (CDCI) to the Credit Rights Investment Fund (FIDC), Valor has learned. The CDCI places the chain as responsible for settling customer financing installments with the banks. In the FIDC, the risk is diluted across thousands of consumer transactions. This migration to the FIDC was already under negotiation last year but was delayed and did not materialize. Now, this must progress.

According to the retailer, the priority from now on is the recovery of results. Focuses include improving gross margin, offering more services in stores, and gaining market share with a more accelerated sales recovery, said Mr. Franklin.

Analysts consider the out-of-court reorganization plan positive due to the substantial renegotiation of values, but highlight the risk of dispersion of current partners (Michael Klein is the largest one) after the issuance of debentures converted into shares. The restructuring was orchestrated by Lazard and the Pinheiro Neto law firm.

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