Brazil-U.S. Business Council
Brazil Bulletin

Interview: Rodolpho Tourinho, President of the Brazilian Industrial and Infrastructure Association (ABDIB)

--"Ports are Brazil's biggest infrastructure bottleneck. The solution is privatize, privatize, privatize."—

Despite challenges including corruption, bureaucracy, poor planning and uncertain finance, Brazil has made some progress with its program of private concessions for infrastructure projects. But progress to date has not been enough to ensure the country's future development needs, according to former energy minister (1999-2001) Rodolpho Tourinho. The former minister, now president of the Brazilian Industrial and Infrastructure Association (ABDIV), addressed issues surrounding private concessions at a recent meeting of investors and reporters sponsored by the National Confederation of Industries (CNI). Excerpts follow:

- **On government concessions and highways:** "Highway development has been fairly successful, with six or seven new contracts and only one failure to sell a concession at auction. These are successful because they come with project financing already in place. I think we'll get four or more new highway concessions approved in the next two years."

- **On concessions and rails:** "Rails are technically more complex and much more expensive than highways. This area has been less successful. The Federal Auditing Board (TCU) has found fault with the concession contracts for rails, making them unviable. Financing has been much harder to obtain for rails than for highways. But we could get as many as six rail concessions going in the next two years if the contract model can be straightened out."

- **On concessions for ports and airports:** "Airport concessions have been a success story. But ports are Brazil's biggest infrastructure bottleneck. The solution is privatize, privatize, privatize."

- **On laws governing the concession program:** "The law on public concessions is now 20 years old. It's a one-size-fits-all kind of law. The rules for a coffee bar concession are the same as for a highway or a dam. There is a bill pending in Congress that would modernize the system. For example, instead of the government developing a highway project and auctioning it off, why not simply auction the right-of-way and let the winner develop the project. The investor knows better than the government what's needed to make the project viable."

- **On utilities:** "Brazil is way behind on construction of new electric power generators. Personally, I think the future is in biomass. This is an area that should be incentivated."

Top News of the Week

Moody's downgrades Petrobras on scandal, lack of audited balance sheets. State-run energy company Petrobras suffered a devastating blow last week when Moody's Investors Service downgraded its credit rating by two notches. Petrobras bonds are now given "junk" status by the ratings agency. Fitch and Standard and Poor's continue to hold their ratings for Petrobras at investment grade, but many analysts believe they will soon order their own downgrades. In announcing the downgrade, Moody's cited a spreading corruption investigation at the company. Moody's also noted Petrobras' inability to produce an audited balance sheet for 2014. Finally, Moody's noted the company's liquidity problems as the most heavily indebted oil firm in the world. Many analysts fear the downgrade will eventually undermine Brazil's sovereign rating, which is still at investment grade level. However, in a note, Moody's said alterations in the country's sovereign rating were unlikely.

Thorny truck strike is latest challenge for government, economy. A seemingly intractable strike by truckers entered its second week last week, with exasperating problems for the economy and the government. Truckers blocked key highways in 14 states at different times during the week, snarling traffic, slowing port operations and leading to spreading food and fuel shortages. Truckers are demanding a reduction in deisel fuel prices, minimum freight rates, lower highways tolls and other measures. Talks at mid-week led to a government pledge to freeze deisel prices for at least six months, reduce some tolls and free up more credit for truckers wishing to expand their fleets. The administration of President Dilma Rousseff refused to negotiate on freight rates, however, calling it a free market issue. Some trucker representatives accepted the government deal, putting their vehicles back on the road. However, many independent truckers vowed to continue the movement, despite heavy court-ordered fines for blocking highways.

Government continues fiscal adjustment with new round of tax, spending measures. Finance Minister Joaquim Levy last week announced additional tax and spending measures as part of the government's 2015 fiscal austerity drive. On the spending side, the government announced a R$75 billion cap on operational and public works spending for the period January through April. The figure is about 20% below actual federal spending during the same period of 2014. On the taxation side, the government reduced cash benefits to exporters and hiked social security tax brackets for many businesses. An executive order last week reduced cash rebates on taxes paid by exporters to 1% from the previous 3%. The order is expected to save the government nearly R$2 billion per year. In the area of social security taxation, the government reduced benefits originally extended to businesses in 56 different industrial segments in 2011. The 2011 program allowed businesses to shift payment of social security taxes from 20% over payroll to a range of 1% to 2% over total billing. Last week, the government hiked the brackets to a range of 2.5% to 4.5% over total billing. The government hopes to raise an additional R$25 billion per year from the change.

Business News

Investment News:

Telecom Italia last week announced massive investment plans for its Brazilian subsidiary, **TIM,** while ruling out virtually any possibility of a merger with Brazilian rival Oi. The company announced a 2015-2017 Brazilian investment plan equal to a record R$14 billion. The company's previous three-year investment plan ran to R$10.5 billion. The company plans to upgrade services and expand its customer base in Brazil.

Company News:

In 2014, **small businesses** in São Paulo had their worst year since 2009, according to a survey released last week by the state's Small Business Administration (Sebrae). Total billing was down 0.6%, representing a decline in absolute terms of R$3.9 billion. The decline came despite 2014 inflation of 6.4%. The worst hit region of the state was the ABC industrial belt. Small businesses registered a decline of 4.6% in billing as workers in the region lost their jobs because of a nationwide economic slowdown.

The world's largest iron ore miner, Brazilian behemoth **Vale**, released 2014 balance sheets last week showing a modest rise in profits despite a sharp decline in revenue. The company posted earnings of $657 million, up from $584 million in 2013. But revenues sank to $38.2 billion from $47.5 billion in 2013 on a sharp decline in global mineral ore prices. Vale was able to raise profits only because 2013 earnings took a deep hit on a one-time payment of back taxes. For 2015, Vale is looking to boost profits by selling off money-losing units and tightening up on costs, the company said.

Brazilian Calendar

Monday, March 2, Trade and Development Ministry release of monthly foreign trade data, Brasília

Wednesday, March 4, Brazilian Central Bank Monetary Policy Committee meeting, Brasília

Wednesday, March 4, Brazilian Census Bureau (IBGE) release of monthly industrial production data, Rio de Janeiro

Thursday, March 5, National Motor Vehicle Manufacturers Association (Anfavea) release of monthly data on sales, production and exports, Hotel Mercuré, São Paulo

Friday, March 6, Brazilian Census Bureau (IBGE) release of monthly IPCA inflation data, Rio de Janeiro

Indicators

Foreign exchange rate: **R$2.86 = $1.00**

Brazil posted another big **current account deficit** in January, this time to the tune of $10.7 billion for a 12-month gap of $90.4 billion equal to 4.17% of GDP, according to Central Bank figures released last week. Foreign direct investment covered only a portion of the deficit at $4.0 billion in January. The deficit has been growing because of a persistent trade deficit and increased foreign travel by Brazilians, Central Bank economists said. The deficit is contributing to a steady weakening of the Brazilian Real against the U.S. dollar.

The Getúlio Vargas Foundation's ICC **consumer confidence** index reached its lowest level since 2005 in February, the foundation said last week. The ICC declined sharply to 85.4 points from 89.8 in January. The index runs from 1 to 200 points, with 100 considered neutral. The 85.4 level indicates a deep dive into negative territory, according to foundation economists. It reflects worries about job security, inflation and high interest rates.

Tax revenues fell 5.4% in January against the same month in 2014, in inflation-adjusted terms, the Brazilian Tax Authority said last week. Revenues were R$125.3 billion. Tax collections were hurt by declining welfare and profit taxes by businesses, reflecting a sluggish overall economy. Revenues should pick up at least slightly in February following announcement of selected hikes in tax rates.

Overall lending in the Brazilian financial system declined by 0.2% in January against the previous month, although rising 11% against January of 2014, the Central Bank said last week. Total lending reached R$3.013 trillion. Lending receded slightly on higher interest rates in the wake of Central Bank monetary tightening. Average rates on all loans rose to 25.1% from 24.0% in December and 23.4% in January of 2014. The Central Bank is tightening up on money supply in the face of inflation, currently running at over 7.0%. The bank recently hiked its base rate to 12.25%. More rate hikes are expected in the coming months.

Brazil's **unemployment rate** rose sharply in January to 5.3%, its highest level since September of 2013, the Brazilian Census Bureau (IBGE) said last week. Unemployment was 4.3% in December. The jobless rate is rising on a sluggish economy and high interest rates. The number of registered workers has remained stagnant, or declined, in recent months as many leave the workforce for early retirement or additional education.

Supported by heavy spending cuts at the state level, Brazil's public sector produced a January **primary budget surplus** of R$21.1 billion, the Central Bank said last week. The primary, or operating, surplus was great enough to produce a modest R$3 billion nominal surplus. The nominal surplus takes into account all forms of government spending, including interest payments on debt. Brazil will still have to struggle, however, to meet its 2015 primary surplus target of R$66 billion. For the 12 months through January 31, Brazil was still running a primary deficit of R$31.4 billion.