Brazil-U.S. Business Council
Brazil Bulletin

Interview: Vicente Assis, McKinsey Consulting Country Manager for Brazil

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To become fully competitive, Brazil would need to make some R$5 trillion in infrastructure investments in a five-year crash program, according to Vicente Assis, Country Manager for Brazil of McKinsey Consulting. Needs include everything from roads and rails to ports and airports. Brazil is losing important economic opportunities because of lack of infrastructure. Assis discussed Brazil's infrastructure challenges at a recent seminar sponsored by the São Paulo Federation of Industries (Fiesp). Excerpts follow:

- **On infrastructure investments:** "Brazil's infrastructure doesn't meet the current needs of the economy. Nor is it likely to in the near future. Current investments are modest, only 2.2% of GDP per year. Brazil is investing less than the global average."
- **On effects of low levels of infrastructure investment:** "Low levels of investment are affecting conditions on highways, at ports and on railways. Other countries—in which the private sector has taken a greater role in providing infrastructure—are better able to solve these problems. There are huge infrastructure gaps. We need to boost investment or else risk losing economic opportunities."
- **On infrastructure and the average Brazilian:** "Brazilians are confronting problems in their day-to-day lives because of lack of planning and investment, by both government and private enterprise, in infrastructure. Poor investments are leading to blackouts and even problems with things like water supply."
- **On business confidence and infrastructure:** "A lack of business confidence is also inhibiting infrastructure investment. There are a number of steps Brazil can take to improve infrastructure investment, including greater access to financing for major projects, better economic and urban planning, better use of skilled labor in the construction industry and tax policies that encourage investment."

Top News of the Week

Concession-holders seen making modest investments in 2014. Holders of newly minted concessions for highways and airports will make comparatively modest investments in 2014, according to a pair of government agencies this week. The National Civil Aviation Authority (ANAC) said concession-holders have pledged R$1.2 billion in airport investments this year while the National Overland Transportation Authority (ANTT) said promised investments in highways total R$2.0 billion. Airport investments will be concentrated mainly in technical upgrades at international airports in São Paulo, Rio de Janeiro, Belo Horizonte and Brasília. Highways will involve mainly repair work. According to concession-holders, the investments currently registered with the regulatory agencies are merely base-line figures. Actual investments could be much greater and are likely to include extension and widening of highways as well as new runways at airports. The third leg of the Brazilian government's infrastructure concessions program, development of river and sea ports, is stalled. Government concession plans have been called into question by the National Auditing Board (TCU). The government has filed briefs with the board in efforts to gain approval for port concessions. The TCU has not yet ruled on the government petitions.

Finance Minister Mantega admits need to "resume partnership" with U.S. The U.S. and Brazil are making a conscious effort to rebuild frayed economic ties, following a rocky period for relations, Finance Minister Guido Mantega said last week. Following a meeting in São Paulo with U.S. Treasury Secretary Jacob Lew, Mantega said, "We have always had good relations in trade and investment and now we need to resume our traditional partnership with the U.S." Lew said Brazil and the U.S. will continue to work together to promote a global economic recovery for trade, investment and jobs. Lew also met with Brazilian Central Bank President Alexandre Tombini. No specific agreements were announced on sensitive issues such as possible Brazilian trade retaliation in the case of alleged U.S. cotton subsidies. Nor did the two countries announce a new date for a possible U.S. visit by Brazilian President Dilma Rousseff. The Brazilian chief executive scuttled a planned 2013 visit on revelations of U.S. electronic spying. U.S. officials expressed heightened interest in investments in Brazilian infrastructure projects under the government's new concessions program. Brazilian officials expressed their concerns over rising U.S. interest rates, which could siphon investment money away from emerging countries such as Brazil and weaken their currencies.

Rousseff still running strong in re-election bid, but overall voter interest tepid. Brazilians are ready to vote a second term for President Dilma Rousseff. They're just not very enthusiastic about it. That was the conclusion of a new poll last week by the Public Opinion Research Institute (Ibope). The poll showed Rousseff with a solid 43% of the vote, the same as in a November poll. Social Democrat Aécio Neves advanced only a single percentage point from November to 15% while Socialist Eduardo Campos remained stable with 7%. But support for all the candidates is weak, the poll-takers said. Some 56% of respondents said they had little or no interest in the election. In the event of an October run-off, the President would also win handily. Against Neves, she would garner 47% of the vote against only 20% for the Social Democrat. Against Campos, she would also win 47%, with Campos taking just 16%.

Petrobras fires finance executive as questions surround Pasadena refinery. State-run oil company Petrobras last week fired Nestor Cerveró, chief financial officer of the company's distribution arm, as questions continued to swirl around the 2006 purchase of the Pasadena oil refinery in Texas. In 2006, Petrobras bought a 50% interest in the refinery from Belgian-based Astra Oil. At the time, the purchase was approved by Brazil's Energy Minister Dilma Rousseff, acting as Petrobras board chairman. Petrobras bought the refinery based, in part, on a report by Cerveró saying the deal was sound both technically and financially. Petrobras officials later determined, however, that the refinery was using inefficient, outdated equipment. They further determined that the money paid for the 50% stake, $360 million, was far more than the refinery was worth. Making matters worse, in 2012, under terms of a put option in the original contract, Petrobras was obliged by Astra to buy out its partner for an additional $1.18 billion. Astra iteslf had purchased the refinery in 2005 for a mere $42.5 million. Opposition members of Congress said last week the episode raises the question of possible fraud. They have promised to seek an investigation.

Business News

Investment News:

Mexican billionaire Carlos Slim last week announced the purchase of the Brazilian subsidiary of South Africa's **Standard Bank**. Inbursa, the investment bank controlled by

Slim, will pay $45 million for the South African asset. Inbursa will use Standard Bank as a platform for investment banking activities in Brazil. Standard Bank sold the asset as part of a strategy of concentrating its business activities in Africa.

Company News:

Federal prosecutors last week joined an ongoing police investigation into alleged corruption at state-run oil giant **Petrobras**. Police are investigating charges that unnamed Petrobras officials took bribes totaling $139 million from Dutch supplier SBM Offshore. SBM leases oil drilling platforms. Petrobras itself is investigating the allegations internally. Earlier this month, Congress voted to create a special investigative committee to look into the matter. Prosecutors said their probe could result in filing of charges for bribery, money laundering and conspiracy.

General Motors Global President Dan Ammann, second in command of the U.S. automaker after CEO Mary Barra, spent much of last week touring GM's Brazilian installations. He agreed with industry reports suggesting stable motor vehicle sales in Brazil, at 2013 levels, for the next two years, with improved sales starting in 2016. He said GM will release a new investment plan for Brazil within the next few months. Industry sources said the plan will call for fresh investments of at least $1 billion.

Brazilian Calendar

Monday, March 24, Brazilian Central Bank release of monthly current account data, Brasília

Wednesday, March 26, Brazilian Central Bank release of monthly data on lending volume and interest charges, Brasília

Thursday, March 27, Brazilian Census Bureau (IBGE) release of monthly unemployment figures, Rio de Janeiro

Thursday, March 27, Annual Meeting of the Inter-American Development Bank, Costa do Sauipe, Bahia

Friday, March 28, Brazilian Central Bank release of monthly primary surplus data, Brasília

Indicators

Foreign exchange rate: **R$2.33 = $1.00**

Brazilian **oil production** continued to stagnate in January as production from new wells merely counterbalanced declining output from played out sites. January production was 2.053 million barrels per day, according to the National Petroleum Authority (ANP). That figure was down 2.7% from December and 0.1% from January of 2013. Output at new wells in the offshore pre-salt region rose 3.3% from December to 358,800 barrels per day but older fields were plagued by maintenance problems and declining production.

To the surprise of many economists, January turned out to be a good month for industrial production after all. According to figures released by the National Confederation of Industries (CNI), **utilization of industrial capacity** rose in January to 82.7% from 82.1% in December. Billing by manufacturers advanced 1.6% against December and 2.4% against January of 2013. Rising output and billing was led by motor vehicles, oil products and some capital goods. Economists said the figures could portend a trend toward greater investment by manufacturers and improved business confidence.