Brazil-U.S. Business Council

Brazil Bulletin

Interview: Ports Minister Edinho Araujo

--"The ministry's role is to encourage private investment."—

Brazil's government is keenly aware of the need to improve and expand port services nationwide in order to remain competitive in global markets, according to Ports Minister Edinho Araujo. The government is also conscious of the fact that the best, and fastest, way to make gains in this critical area is through private investment. Araujo, a São Paulo congressman, took office in January. He recently met with business leaders and reporters at the São Paulo Federation of Industries (Fiesp) headquarters. Excerpts follow:

- **On government economic policy:** "I am fully in agreement with the government's position that a fiscal adjustment is needed now in order to assure sustainable growth in the future."

- **On government policy toward port development:** "Brazil urgently needs a positive agenda and ports are ready to make their contribution. The government's policy is to simplify and modernize our ports as quickly as possible. Brazil needs to generate jobs and that means having competitive exports**.** When it comes to development of our ports, there is no one better positioned than the private sector. The ministry's role is to encourage private investment."

- **On the government's port leasing plans:** "We are very hopeful about the TCU's (National Auditing Court) evaluation of the government's bidding model for leases at the ports of Santos and Para. We are in a constant dialog with the TCU on this. Once these first two are out of the way, we'll move on the others. There are four more waiting in line. As soon as we get TCU approval for the model, we will be able to open bidding, attracting much needed investment."

- **On plans for private terminals:** "So far, 40 proposals have been approved, worth investments totaling R$11 billion. There are currently 48 more proposals under examination at the ministry. If approved, they would imply investments of R$12.9 billion."

- **On cutting red tape:** "We are reducing bureaucracy through our *Porto Sem Papel* (Ports Without Paperwork) program. Every certificate issued under the program eliminates 112 different documents demanded by different branches of the government. We gain time and improve quality this way."

Top News of the Week

Standard and Poor's maintains Brazil's investment grade rating. Government officials, and investors, breathed a collective sigh of relief last week when Standard and Poor's announced it was maintaining Brazil's triple-B-minus sovereign credit rating. Triple-B-minus is the lowest investment grade rating and assures a steady flow of incoming investments from pension funds and other institutional investors. Standard and Poor's also maintained a "stable" outlook for the rating. The announcement came days after a series of meetings in Brasília between S&P analysts and top officials, including Finance Minister Joaquim Levy. In a note, S&P said it was confident Brazil's government will be able to press forward with fiscal austerity measures designed to convert a 2014 government deficit into a 2015 surplus equal to 1.2% of GDP. The agency also expressed confidence in Central Bank efforts to reduce inflation, currently running at nearly 8.0%.

Federal Police open new front in corruption probe, aimed at tax fraud. The Federal Police last week opened a new front in a spreading investigation of official corruption in Brazil, this time focusing on alleged tax fraud. Police released a list of dozens of corporations, including leading banks and contractors, allegedly involved in bribery designed to influence the outcome of tax disputes. The list also included lawyers and tax agents working at the Federal Tax Authority's Administrative Appeals Councils. The Councils decide on appeals in tax disputes between companies and the government. Police allege that companies paid council members in exchange for favorable decisions. The government may have lost up to R$19 billion in revenues from the scheme.

Gross Domestic Product rises a mere 0.1% as investments fall back. Brazil's Gross Domestic Product advanced by a bare 0.1% in 2014 over the 2013 level, the Brazilian Census Bureau said last week. The growth rate contrasted with the 2013 figure of 2.7%. Industrial output suffered a 1.2% loss in 2014 on muted consumer demand in the face of high interest rates and rising indebtedness. Agriculture posted a 0.4% advance while services rose 0.7%. Fixed capital investment, however, declined by 4.4% as heavy industry and construction retrenched. Brazil's investment rate fell to 19.7% of GDP from 20.5% in 2013. Most economists are predicting an outright decline for GDP this year as Brazil battles high inflation and sluggish consumer demand. In a report earlier this month, the Central Bank forecast a 0.5% retreat in GDP in 2015 with inflation ending the year at 7.9%.

President names new Education Minister, replaces top communications aide. President Dilma Rousseff last week named University of São Paulo Philosophy Professor Renato Janine Ribeiro, 66, as the country's new Education Minister. A non-partisan appointee, Ribeiro will replace the controversial Cid Gomes, who resigned earlier this month after tangling with congressional leaders in a hot-headed public debate. Ribeiro won praise from all quarters. Meanwhile, the President appointed Edinho Silva, a São Paulo assemblyman and key organizer for the ruling PT (Partido dos Trabalhadores), to replace Thomas Trauman as the administration's communications director. Silva, 50, will serve as the administration's main public relations mouthpiece. Trauman resigned after local newspapers published a leaked internal report calling the government's public relations effort "chaotic."

Business News

Investment News:

The government-run **National Development Bank** (BNDES) reduced its overall lending in 2014, in nominal terms, by 1% to R$187.8 billion, the bank said in a statement last week. Lending fell back despite 6.4% inflation. Officials said lending is likely to decline even further this year, in both nominal and inflation-adjusted terms, as Brazil's Treasury ends its own lending to the BNDES. The BNDES currently owes the Treasury some R$466 billion. Treasury lending was already tapering off in 2014, partially explaining the downturn in overall BNDES loans. Lending by the bank was also down because of declining demand for business loans in a sluggish economy. Last week, the National Monetary Council put a further damper on BNDES activity by raising the Long-Term Interest Rate, a base line for many BNDES loans, by a half point to 6.0%. It was the second half-point hike this year.

Brazil's government will auction as many as 15 new **airport concessions** by 2018, Civil Aviation Minister Eliseu Padilha said last week. He said the government will auction nine concession contracts within the next six months, with six others likely by 2018. Brazil has auctioned a number of airport concessions in recent years, including key hubs in Rio de Janeiro and São Paulo.

Company News:

Standard and Poor's last week re-affirmed its Triple-B-minus credit rating for state-run energy company **Petrobras** but reduced its outlook for the company's rating from "stable" to "negative." Triple-B-minus is the lowest investment grade rating. S&P said the "negative" outlook for the rating was based on worries about a spreading corruption scandal as well as the company's ability to service mounting debts with dwindling revenues.

Food and beverage investor **Jorge Paulo Lemann,** noted in many surveys as Brazil's richest person, announced another major acquisition last week by merging H.J.Heinz Co. with Kraft Foods Group. Lemann's holding company, 3G Capital, already controlled Heinz in partnership with U.S. mega-investor Warren Buffett. Buffett's Berkshire-Hathaway holding company and 3G Capital will jointly control the new entity, to be called Kraft Heinz Co. with a 51% stake. The merger will be accomplished via an exchange of shares, with Kraft shareholders gaining a bonus dividend to be paid by 3G Capital and Berkshire-Hathaway. The bonus will be worth an estimated $10 billion.

Brazilian Calendar

Tuesday, March 31, Central Bank release of monthly primary budget surplus figures, Brasília

Wednesday, April 1, Development, Industry and Foreign Trade Ministry release of monthly trade data, Brasília

Wednesday, April 1, Brazilian Census Bureau (IBGE) release of monthly industrial production figures, Rio de Janeiro

Friday, April 3, Good Friday national holiday

Indicators

Foreign exchange rate: **R$3.24 = $1.00**

Brazil's **current account gap** began to narrow in February as a weaker Brazilian Real pulled down overseas travel expenditure and profit and dividend remittances. According to Central Bank figures last week, February showed a current account deficit of $6.9 billion, down from $10.7 billion in January. The 12-month deficit was still a worrisome $89.9 billion, but may fall in the coming months as the monthly current account gap continues to close. The Central Bank forecast a 2015 current account deficit of $80.5 billion, down from the 2014 figure of $91.3 billion.

February **tax revenues** rose 0.5%, in inflation-adjusted terms, from the same month a year ago to R$89.9 billion, the Federal Tax Authority said last week. But the gain was due to a one-time R$4.6 billion payment of back taxes by an unnamed company. Revenues for the first two months of the year were down 3%, in real terms, against the same period a year ago at R$215.2 billion. Revenues continue to lag because of a sluggish economy. However, recent tax hikes are expected to elevate revenues starting in March.

Total lending by the Brazilian financial system increased 0.5% in February against the previous month and 11.0% against February of 2014 to R$3.026 trillion, the Central Bank said last week. The bank put likely 2015 credit expansion at 11.0%, the lowest level since 2008. Credit expansion is likely to decelerate this year because of rising inflation, high interest rates and a sluggish economy. Average interest rates in February rose to 25.6% from 25.1% as of January.

The upward trend for Brazilian **unemployment** continued in February, reaching 5.9%. Unemployment in January was 5.3%. It was 5.1% in February of 2014, the Brazilian Census Bureau said last week. Previously limited to industrial jobs, the service sector also began shedding employees in February, the IBGE said. Unemployment is rising due to a sluggish economy, low corporate investment and high interest rates.