



**Brazil - U.S.
Business Council**

Brazil Bulletin

Interview: Civil Aviation Minister Wellington Moreira Franco

--"I am certain our airports will be ready to handle the World Cup."--

Brazil's airports will be ready for the soccer World Cup, to be hosted in 12 Brazilian cities starting June 12, but not in accordance with every detail of the government's original plan for the event. At least one airport will be serviced by temporary facilities. Another will have a contingency plan in place in the wake of a recent power blackout. Longer term, Brazil's government needs to speed up work on expansion and technical upgrades at some of its airports while simultaneously moving ahead with an ambitious program of private concession auctions. These were the messages from Civil Aviation Minister Wellington Moreira Franco at a recent meeting with investors and reporters. Excerpts follow:

- **On preparations for the soccer World Cup:** "I am certain our airports will be ready to handle the World Cup. I'm confident we won't have another blackout at Rio's airport, like the one on April 18, during the World Cup. There's no risk of blackouts at other Brazilian airports."
- **On the blackout at Rio de Janeiro's international airport:** "The airport administration blames the electric company and the electric company blames the airport administration for the blackout. I'm going to make sure there are no more misunderstandings of this nature. Together, the airport administration and the electric company are going to iron out a contingency plan. It's not that difficult. We're not going to tolerate another blackout."
- **On construction delays at Fortaleza's airport:** "Work (to expand capacity) at the Fortaleza airport is far behind schedule. It's a very serious problem. We're going to have to use temporary terminals at Fortaleza, such as those which were used in London for the Olympics and in South Africa for the 2010 World Cup. But I'm not satisfied with this solution. On the contrary, I think the airport administration (in Fortaleza) should have taken steps to oblige the contractors to finish the work they were hired to do."
- **On construction work at airports in Cuiabá and Porto Alegre:** "Cuiabá's airport will be ready in time for the World Cup. Work (on a fog alert system) at Porto Alegre's airport is already in the final phase of testing."
- **On long-term plans for Brazil's airports:** "Airplane travel has become a mass transit option in Brazil. Millions of people pass through our airports every year. They should be treated like the good customers they are. Airports should be like high quality bus stations."
- **On concession contracts for airport expansion and administration:** "The concession program has brought major Brazilian companies and world class airport managers to the fore. Best of all, they got here through competition. We want our airports to be among the best in the world."

- **On challenges confronted in the concession process:** “In any area of infrastructure, deterioration is fast in the absence of investment and maintenance but the lead time for new investments is long. Both the government and the private sector are working hard to change the mentality surrounding concessions so that we can shape concession contracts more effectively and accelerate auctions and execution.”

Top News of the Week

Government announces 2014 farm plan, including 15% rise in financing. President Dilma Rousseff last week announced a major increase in government lending to the farm sector. This year’s farm plan will include total government financing of R\$156.1 billion, a rise of 15% from last year. In announcing the plan, Rousseff said, “Support for our farmers and ranchers continues to be one of the main pillars of my administration.” Interest rates will also be higher, ranging from 4.0% to 6.5%, or about one percentage point higher, on average, than in 2013. But the loans will still be heavily subsidized, given the current 11.0% base interest rate mandated by the Central Bank. Most loans will carry terms of up to five years. Producers will use the loan money to finance planting, storage and long-term purchases of equipment. As in past years, the main lender will be government-run Banco do Brasil. Brazil is expecting a near record grain and oilseeds crop this year of 191 million metric tons.

Brazil drops in efficiency ranking for fourth year in a row. Brazil is less competitive than it was last year and is considerably less competitive than in 2010, according to this year’s World Competitiveness Yearbook ranking of 60 countries. Brazil ranked 54th among the 64 countries this year, down from 51st in 2013. As recently as 2010, Brazil was ranked 38th. Problems abound. One is the increasing cost of financing investments, due to Brazil’s towering 11.0% base interest rate. Another is persistent inflation, now running at 6.3%. But other problems are longer term in nature and more deeply ingrained in the nation’s economy. These include restrictive labor laws, high tax rates and an unusually complex tax code. Poor infrastructure is also bringing oppressive costs to manufacturers and producers of farm commodities. High energy costs are another inhibiting factor for industry.

All three major presidential candidates advance in latest Ibope poll. Brazilians are finally beginning to pay attention to this year’s presidential election after a series of televised presentations by major political parties in recent weeks. In a Public Opinion Research Institute (Ibope) poll last week all three major candidates advanced, with opposition nominees gaining the most ground. In an accompanying report, Ibope poll-takers said Brazilian voters were finally “making up their minds” about the issues and the candidates. This week’s poll showed President Dilma Rousseff advancing three percentage points from April to 40%. Social Democrat Aécio Neves gained six percentage points to score 20% while Socialist Eduardo Campos was up five points to 11%. Poll-takers said President Rousseff may have topped out. Public approval for her administration remained unchanged at 35%, with 65% of the electorate voicing severe disapproval for the government on issues ranging from inflation to public safety. Poll-takers predicted further gains for the opposition candidates in forthcoming polls.

Government details revenue sources for 2014 primary budget surplus. The Brazilian Planning Ministry last week detailed the revenue sources it expects to use in order to obtain this year’s R\$99 billion primary budget surplus. The government expects to obtain R\$24.3 billion from payment of back taxes by corporations under a voluntary program to clear up arrears. In addition, the government believes it will earn some R\$13.5 billion this year from the auction of public works concessions. An additional R\$23.9 billion will come in from payment of dividends by state-run corporations. The rest will be raised from increases in ordinary tax revenue from expected economic growth of 2.5%.

Business News

Investment News:

Building contractor **Galvão Engenharia** last week won the government's first in a new series of highway concession auctions. The company won the concession to upgrade and operate a 625-kilometer highway linking Anápolis in Goiás with Aliança in Tocantins. Galvão offered the lowest toll, R\$4.99 per 100 kilometers, of any bidder. The highway demands some R\$4.3 billion in investments. The next auction in the series will be for the bridge across Guanabara Bay linking Rio de Janeiro and Niterói. The Transportation Ministry hopes to hold the auction before the end of the year.

Company News:

Brazilian aircraft manufacturer **Embraer** last week announced a R\$7.2 billion deal to sell 28 of its new KC-390 cargo jets to the Brazilian Air Force. The planes will be delivered over a 10-year period beginning in 2016. The aircraft was developed jointly by Embraer and the Brazilian Air Force with an investment budget reaching nearly R\$5 billion. Embraer has 32 additional orders for the KC-390 from five countries and hopes to sell as many as 700 over the next decade.

The Brazilian unit of **General Motors** last week announced a recall of 238,000 passenger cars manufactured in 2013 and 2014. The recall covers nine separate models. GM ordered the recall because of possible problems with a fuel filter. Brazilian auto makers have ordered recalls of more than 500,000 vehicles so far in 2014.

Brazilian Calendar

Wednesday, May 28, Brazilian Central Bank Monetary Policy Committee meeting, Brasília

Thursday, May 29, Brazilian Central Bank release of monthly data on lending volume, average interest rates and defaults, Brasília

Friday, May 30, Brazilian Central Bank release of monthly primary budget surplus data, Brasília

Friday, May 30, Brazilian Census Bureau (IBGE) release of first quarter GDP data, Rio de Janeiro

Indicators

Foreign exchange rate: **R\$2.22 = \$1.00**

Brazilian **unemployment** dipped to just 4.9% in April from 5.0% in March and 5.8% in April of 2013, the Brazilian Census Bureau (IBGE) said last week. However, economists noted that the jobless rate has declined steadily in recent months only because many Brazilians have dropped out of an increasingly frustrating labor market. Wages, meanwhile, have stagnated. The average monthly wage for registered workers in April was R\$2,028, down slightly from R\$2,040 in March and up only marginally from R\$1,977 in April a year ago.

The Getúlio Vargas Foundation's **Consumer Confidence Index** (ICC) declined in May to its lowest level since 2009, sinking to 102.8 points from 106.3 in April. The index

measures consumer willingness to make large-ticket purchases based on a range of 1 point to 200 points, with 100 as neutral. Consumer sentiment is in decline because of persistent inflation, job insecurity and high interest rates, economists said.

Record overseas spending by Brazilian tourists and rising profit and dividend remittances brought Brazil's monthly **current account deficit** up to \$8.3 billion in April from an already worrisome \$6.25 billion the previous month, the Central Bank said last week. Brazilians spent \$2.34 billion overseas in April while multinationals sent \$3.3 billion back to parent companies. The 12-month figure for the current account deficit, however, remained stable at \$81.6 billion, or 3.65% of GDP. Economists said the Brazilian Real is still overvalued against the U.S. dollar, causing narrow trade surpluses and encouraging remittances. Foreign direct investment during the month, at \$5.23 billion, was not enough to plug the current account gap. FDI in March was \$5.0 billion.

