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VEIRANO ADVOGADOS' REVIEW OF ECONOMIC, LEGAL, AND POLITICAL DEVELOPMENTS

JULY/AUGUST

VistaBrazil 2015



PHOTOGRAPH: FLICKR/TUMBLING RUN

Wind power has been supplying more than its projected share of energy

How the pie is sliced: The Brazilian energy mix is changing

Brazil has both great energy needs and vast energy resources, but as water reservoirs have experienced historically low levels over the past three years because of drought in the southeast, the country has had its more expensive natural gas-powered thermal plants running at full throttle, driving the average electricity bill up by more than 20 percent.

In a move to expedite power generation and transmission projects, on 11 August the federal government launched the Electricity Investment Program (PIEE). The program earmarks US$33.23 billion to generation and US$20.05 billion to power lines for a total US$53.28 billion. According to public news outlet Agência Brasil (EBC), the government hopes to increase competitiveness in the sector in order to reduce energy costs.

Increasingly expensive hydropower continues to be the leading source of electric power generation, accounting for 65.7 percent, followed by natural gas (9.4 percent), biomass (9.2 percent), oil (7.1 percent), and wind (4.5 percent) – but that energy mix is shifting. And overall, installed electric power capacity rose 6.4 percent in the 12 months to June, according to the latest figures from the Ministry of Mines and Energy, 3 GW of new capacity was added in the first six months of the year.

In the short term, conditions improved for hydropower ...

VEIRANO ADVOGADOS

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in early August. After recent rains, water reservoir levels have been rising, and the 21 most expensive gas- and diesel-fired plants – with a combined capacity of more than 2 GW and a cost of US$171/MWh or more – are no longer needed. In the longer term, plans are in place to shut down the most expensive and environmentally damaging fossil fuel plants by 2017.

And in the big picture, Brazil plans to expand renewable energy sources other than hydropower to 28–33 percent of its total energy mix by 2030.

A mighty wind

The situation has charged up the wind power sector. New operational wind farms added 1.26 GW of capacity in the first six months of the year, and wind power has been supplying more than its projected share of energy on the national grid.

The unregulated wind power market is seeing spot prices of US$121/MWh. Of the 6 GW of wind power installed in the past six years, 10 percent has been sold on the unregulated market and the number of companies buying power on that market has tripled.

The Brazilian government recently brokered an agreement between several large industrial groups in the windy northeast and federal power company CHESF, one of the subsidiaries of Eletrobras, to replace an existing hydroelectricity subsidy with financing mainly for wind projects that will supply manufacturing facilities for the next 30 years.

Seven major industrial energy users in the region have also agreed to reduce the volume of electricity they purchase from CHESF and to pay a higher price. Vale, Gerdau, Paranapanema, Ferbasa, Brasken, Mineração Caraiba, and US Dow agreed to a price adjustment of about 25 percent.

With that trend in mind, the future of wind-generated electricity looks rosy indeed. Wind power represents the fastest-growing generation source in Brazil, and is expected to top 24 GW of capacity by 2024. That would represent more than 10 percent of total installed capacity.

The National Bank for Economic and Social Development (BNDES) plans to increase its financing for local wind farm projects by 15 percent this year, and project developers will receive US$2.26 billion in new credit lines.

In late July, Brazilian energy developers applied to sell power from 1,379 plants, with a total 38.917 GW, in an auction planned for 13 November. Most applications were for wind farms.



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Offices in Rio de Janeiro, São Paulo, Porto Alegre, and Brasília…

Solar bidding

The need to replace fossil-fuel plants and tackle reduced hydropower output has also lit up the prospects for solar power. Minister of Mines and Energy Eduardo Braga recently indicated that Brazil will install more than 1 GW of solar per annum. By 2024, the government expects 2.7 GW of rooftop solar and 6.9 GW of utility-scale solar.

Relatedly, the Brazilian Electricity Regulatory Agency (ANEEL) announced on 28 July that electricity sold at the next reserve energy auction from new solar plants has been capped at US$103/MWh. That ceiling is 33 percent above that set for the first exclusively solar auction, which occurred last October, and reflects the positive interest of the government in developing the solar segment of the energy sector. In Brazilian energy auctions, companies compete for long-term contracts to sell electricity from power projects that they plan to build.

Developers have registered photovoltaic projects in 11 states for the 28 August auction. The highest number of proposals come from Bahia (140), followed by Piauí (61), Rio Grande do Norte (39), Minas Gerais (36), and São Paulo (34). The bidding will be conducted online in an auction that will offer distributors 20-year supply contracts starting in August 2017. The contracts will be used to guarantee supply by providing supplementary electricity to the national grid.

Sun, wind, and massive oil reserves – Brazil has abundant energy resources. Now, it must invest in exploiting them wisely and well.

VEIRANO ADVOGADOS
Infrastructure & Projects…

Infrastructure issues

A PPP guarantee?

Brazilian officials are considering creating a guarantee fund to help stimulate the creation of state and municipal public–private partnerships (PPPs) to build metro lines. In the case of a public-sector default, the private investor would have immediate access to the fund.

According to *Valor Econômico*, officials want to kickstart stalled projects and establish more PPPs. The federal government would provide the lion's share of the funding, along with state and municipal government contributions.

According to Moody's Investor Service, PPPs in Brazil continue to be hindered by complex regulations and financing difficulties, and this new commitment is intended to address that at least in part.

Financing logistics projects

A major goal of the Brazilian Logistics Investment Program (PIL), which is now in its second phase, is to attract private-sector infrastructure investment in order to improve the flow of agricultural production and reduce logistics costs, according to Minister of Planning, Budget, and Management Nelson Barbosa.

In early June, it was announced that the program would launch US$66 billion in concessions for rail (US$24.4 billion), roads (US$18.7 billion), ports (US$10.6 billion), and airports (US$2.4 billion), under revised terms. For one thing, the participation of the National Bank for Economic and Social Development (BNDES) has been capped at 70 percent. Roughly a third of the projects are to be completed by 2018, when President Dilma Rousseff will leave office.

PHOTOGRAPH: FLICKR/DILMA ROUSSEFF



President Dilma Rousseff will leave office in 2018

Bond issues are expected to raise US$4.47 billion for logistics infrastructure projects but could face delays over the next several years, in part because various transactions for the first phase of PIL have not yet been completed. Of US$3.36 billion in bonds offered for 37 operations, only US$0.35 billion have been sold. Seven bond issues were authorized by the Ministry of Transportation earlier this year. Three of them are by local engineering companies Odebrecht and Invepar, which are facing setbacks due to macro-economic uncertainties.

More generally, BNDES is also launching a credit line to pay interest on up to US$1.71 billion of possible infrastructure bonds, according to a bank release. The credit line will finance interest payments for up to two years on bonds issued for projects that improve logistics and transportation, water and sanitation, urban mobility and energy, among other sectors.

OAS struggles with sale

Construction firm OAS is selling its stake in infrastructure firm Invepar. Canadian asset manager Brookfield is looking to acquire the 24.4 percent stake but has reduced its offer to US$445 million, significantly lower than the approximately US$642 million initially under consideration.

Brookfield found after due diligence that more investment than originally believed will be needed to sustain Invepar's business, a portion of which involves a partial concession in Guarulhos airport, São Paulo.

Invepar's other controlling investor, Previ, may block the transaction, however, as a low valuation could depreciate its investment. Previ is the pension plan for Banco do Brasil employees.

OAS is also trying to sell its stakes in OAS Defesa (100 percent), OAS Soluções Ambientais (100 percent), the Arena das Dunas (100 percent) in Natal, Rio do Grande do Norte state, OAS Empreendimentos (80 percent), OAS Óleo e Gás (61 percent), the Arena Fonte Nova stadium (50 percent) in Salvador, Bahia state, and Enseada shipyard (17.5 percent).

Port financing

The National Bank for Economic and Social Development (BNDES) has approved long-term project financing for local logistics firm Prumo Logística, to the tune of US$833 million.

The funds will be used by subsidiary Porto do Açu Operações, the administrator of Açu port, in Rio Janeiro state. Work is due to be completed this year at Açu, after which the port will have the capacity to handle vessels of up to 220,000 dead weight tonnage.

PHOTOGRAPH: WIKIMEDIA COMMONS/KONSTANTIN VON WEDELSTAEDT



Chilean LAN and Brazilian TAM will be renamed LATAM as the two airlines, which merged in 2012, take another step toward integration

Water for São Paulo

An emergency water supply project in São Paulo state – still suffering from drought and coming to the end of the so-called rainy season – will reportedly take until the end of August to be completed, four months later than its original May target.

State water utility Sabesp is attempting to replenish the Alto Tietê water supply system by transferring water from the neighboring Billings reservoir through two parallel pipelines running for 11 km. Once completed, the system will have the capacity to transfer 4,000 liters per second of water.

Waste not, want not?

Brazil is having a difficult time keeping up with its solid waste disposal requirements. The production of waste has jumped almost 30 percent in the last decade but treatment has not kept pace. More than 40 percent of solid waste is subject to unregulated dumping and some 20 million citizens have no regular garbage collection. Those thinking in the long term might conclude that where there's muck there's brass.

Flying high

Chilean LAN and Brazilian TAM will be renamed LATAM as the two airlines, which merged in 2012, take another step toward integration.

TAM and LAN will continue as separate identities for up to three years as the new identity is phased in, including crew uniforms, aircraft livery, and lounge and airport branding. A new LATAM livery will make its appearance in the first half of 2016, although the first Airbus A350 aircraft will carry TAM livery.

Overall, Brazilian airlines are seeing soaring profits, and expected to achieve US$29.3 billion in profits this year, a hike of 78.65 percent over 2014.

Mining notes

Vale prevails

Brazilian mining giant Vale appears to be turning a string of losses around. Net earnings rose 17.3 percent year on year in 2015Q2, with iron ore production of 85.3 Mt ...

according to an earnings release on 30 July. The company attributed its performance to falling production costs.

Vale is focusing on providing high-quality iron ore rather than low-grade ore from depleted mines with high-grade material in a bid for improved margins. The higher grade material is from Carajás and the southeastern system.

The company notes a recent improving trend in Chinese steel industry production and sales, with a knock-on effect for its own sales of iron ore. China imported 453 million tons of ore in January–June, some 83 percent of it from Australia and Brazil versus 74 percent in the same period last year, according to Chinese customs data.

Votorantim in Peru

Votorantim Metais has purchased a further 10 percent of zinc and lead miner Milpo for US$119 million, giving it 60 percent of the Peruvian company. Through its Milpo acquisition, Votorantim now also has a controlling interest in zinc and lead mining company Atachoca and to the Cajamarquilla zinc refinery, near Lima.

Banking and finance

Real takes a pummeling

The Brazilian real has reached a 12-year low, as GDP forecasts continue to sink. The currency has fallen 25 percent this year alone. A 1.5 percent contraction is expected for this year and the estimate for 2016 is growth of just 0.33 percent. In response, local bond yields have been pushed to record highs.

Swaps, which are based on expectations about Brazil's borrowing costs, climbed to the highest level since 2008 after the Central Bank decided to keep the trend of interest rates at a nine-year high. The bank has also accelerated the pace at which it rolls over foreign exchange swap contracts due to expire next month.

Raising the Selic again

The monetary policy committee of the Central Bank of Brazil, Copom, raised the benchmark Selic interest rate to 14.25 percent on 30 July, from 13.75 percent. The move may mark the end of a tightening cycle that has seen the Selic jump 7 percent in a little over two years. This time, however, Copom announced that the new rate would be maintained for "a long enough period."

Bradesco acquires HSBC business

HSBC announced on 2 August that it was selling its Brazilian banking business to Brazil's second-largest private bank, Banco Bradesco, according to the *Rio Times*. HSBC reportedly sought to sell off just its retail banking business in the country, but Bradesco wanted the entirety of its Brazilian operations, delaying the deal.

In the end, Bradesco outbid closest competitor Santander and with its US$5.186 offer went well over the expected US$4 billion.

It takes over the retail, insurance, and asset management services of HSBC in Brazil, plus all branches and clients. HSBC plans to continue services to corporate clients in the country, but the sale leaves only Citigroup and Santander as foreign banks with retail subsidiaries in Brazil.

Bradesco is well positioned for the acquisition, having just reported second-quarter earnings that, at US$1.33 billion, bettered expectations by 2 percent.

Its net income was up 18.4 percent year on year and 5.4 percent compared with the previous quarter. With the purchase of HSBC's Brazilian assets, Bradesco edges closer to Brazilian market leader Itaú Unibanco.

The deal will need to be approved by the anti-trust Administrative Council for Economic Defense (CADE).

Banks in the pink of health

The four largest listed banks in Brazil – Santander, Itaú, Bradesco, and Banco do Brasil – are expected to have increased their profits by an average 13.7 percent year on year in 2015Q2, primarily thanks to the soaring Selic benchmark interest rate. The average banking spread for non-mortgage consumer loans was 29.9 percent in May.

Santander profits

Spanish bank Santander has experienced a 39 percent increase in attributable profit for its Brazil operations, the third-biggest increase among the group's 10 core markets, behind only Spain, at 50 percent, and Portugal, at 44 percent. Latin America accounted for 37 percent of the bank's total profits, with Brazil accounting for 20 percent, Mexico 7 percent, Chile 5 percent, and the rest of Latin America 5 percent.

Reflecting its healthy cash status, Santander has also formed a joint venture with French car manufacturer PSA, the Brazilian unit of Peugeot-Citroën. In a bid to strengthen its position in auto financing segment, if it obtains regulatory approval the bank will acquire 50 percent of Banque PSA Finance, PSA's auto financing unit, and will offer financial products and services to concessionaires and clients of Peugeot and Citroën in Brazil.

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Banking & Finance…

Economy in brief

Outlook versus rating

At the end of July, Standard & Poor's decided to establish a negative outlook for the Brazilian economy but not to downgrade the country's credit rating, which remains within investment grade at BBB–. Essentially, the rating recognizes that an economic recovery will take longer than expected but that policy corrections are underway.

Fitch Ratings has also lowered the Brazilian outlook from stable to negative this year. Conversely, on 11 August, Moody's downgraded the Brazilian credit rating to Baa3 but improved its outlook from negative to stable.

A Bloomberg News survey of economists revealed the opinion that Brazil has a 70 percent chance of losing its investment grade rating within the next few years, according to a median estimate.

Soaring inflation

Year-to-date inflation in July was 6.83 percent and 12-month inflation was 9.56 percent, well above the top end of the target of 4.5 percent within a band 42 percent, according to the Brazilian Institute for Geography and Statistics (IGBE). Consumer prices rose 0.62 percent over the month, led by steeply rising electricity prices.

The Central Bank has vowed to halve the inflation rate next year but analysts agree that annual inflation is likely to hit 9.25 percent by year end.

Industrial production takes a hit

Industrial production dropped 6.3 percent in the first six months of 2015 compared with the same period in 2014, according to the Brazilian Institute for Geography and Statistics (IBGE).

PHOTOGRAPH: WIKIMEDIA COMMONS/MARIORDO



Brazilian industrial production dropped 6.3 percent in the first six months of 2015 compared with the same period in 2014

The severest impact was seen in the automotive sector, which suffered a 20.7 percent decline in output year on year. The National Federation of Car Dealers has reported a 17.87 percent drop in sales so far in 2015. Extractive activities, by contrast, rose 9.4 percent.

Monthly industrial production declined in 15 of 24 sectors analyzed and was especially affected by the IT and electronic equipment sector (–12.7 percent), machinery and equipment (–7.2 percent), and automobile production (–2.8 percent). The production of durable goods fell by 10.7 percent and capital goods by 3.3 percent over the month, influenced by the lower output of automobiles, trucks, and home appliances.

On the up side, beverage production increased by 3.6 percent, food production by 3 percent, paper products by 1.7 percent, semi- and non-durable consumer goods by 1.7 percent ,and petroleum and biofuels products by 0.8 percent over the month.

Unemployment figures

Brazilian unemployment was 6.9 percent in June, up 0.02 percent month and month and increased by 2.1 percent year on year. The unemployed population was 1.7 million people, 522,000 more people than in June 2014. The number of private-sector workers has fallen 2.0 percent (240,000 people) over the year. The employed and economically inactive population remained relatively stable.

Taxing times

For a government struggling with falling tax revenues – down 2.44 percent annually after inflation – any potential revenue stream must be explored. Finance Minister Joaquim Levy has already admitted that falling tax revenues will cause the government to fall short of its budget goals for this year.

It is not expected that Congress will approve more than approximately US$19 billion of the proposed US$25 billion in budgetary cuts to social programs. For that **...**

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International Trade / WTO...

Upcoming events

Title	Date	Place	Sponsor	Contact
International Trade Fair of the Sugar & Alcohol Industry	25–28 August	Sertãozinho, São Paulo	Fenasucro	www.fenasucro.com.br
Celebrating 70 Years of Diplomatic Relations between Brazil and Australia	8–9 September	Sydney, Australia	Australia Brazil Business Council	www.aubrbc.org/contact
11th Annual Latin America Syndicated Loans Conference	10–11 September	Miami	Euromoney	euromoneyseminars.com
2nd Annual Labor & Employment Conference	11 September	Miami	Latin Lawyer	sarah.steven@latinlawyer.com
3rd Annual Institute on Current Developments in Latin American Cross-Border Securities Transactions 2015	17 September	São Paulo	Practising Law Institute	info@pli.edu
6th Annual Private Equity Conference	17 September	New York	Latin Lawyer	llevents@latinlawyer.com
Latin America Commodity Finance Conference	17–18 September	Miami	Euromoney	euromoneyseminars.com
11th Annual Latin America Airfinance Conference	17–18 September	Rio de Janeiro	Euromoney	euromoneyseminars.com
Brazil M&As and Private Equity Forum 2015 (in Portuguese)	24 September	São Paulo	MergerMarket	edward.custer@mergermarket.com
Real Estate Brazil Forum	6–7 October	São Paulo	Latin Markets	aline.viana@latinmarkets.org

reason, taxes are likely to increase on financial institutions, dividends, and affluent individuals.

A tax on the profits of financial-sector companies will rise from 15 to 20 percent starting on 1 September. Individuals with high net worth can expect to see higher taxes soon, and discussions are also underway about raising state-level taxes on asset transfers – from inheritance, gifts, and donations.

At the same time, there is a trend in the other direction. On 6 August the Chamber of Deputies voted overwhelmingly to raise the wages of government lawyers, state prosecutors, and police chiefs by up to 59 percent and delayed voting on austerity measures to raise corporate taxes, according to Reuters. Members of the Workers' Party (PT) dealt a blow to President Dilma Rousseff by breaking ranks and voting for the bill to raise expenditures. The bill alters the constitution and must still pass another vote in the Chamber and two vote rounds in the Senate.

Relatedly, in a bid to recover approximately US$150 billion in unreported assets held abroad, the government also plans to offer an amnesty to Brazilians who disclose the origins of their funds and pay a 35 percent penalty. A bill to that effect is expected to go to a Senate vote this month.

Many wealthy Brazilians would like to sort out their affairs and avoid charges of tax evasion, but analysts suggest that the penalty is far too high to lure funds into such **...**



an ailing economy. Those who can be convinced to go along with the plan will bring some benefit to local wealth management services.

Other government revenue-raising plans in the offing are the sale of the insurance arm of state bank Caixa Econômica Federal and a state payroll auction.

Making friends with the Senate?

On 10 August, Minister of Finance Joaquim Levy held a meeting with Senate president Renan Calheiros and Senators Romero Jucá and Eunício Oliveira, among others, in an effort to strengthen the collaboration needed to push forward the government's long-term agenda of structural and financial reform. Levy received proposals from the senators and referred to the discussion as very positive, though he did not give any details.

President Dilma Rousseff has called on senators affiliated with the parties of the ruling coalition to reject proposals that add to government costs without adding corresponding ways to pay for them. She asked the senators for their support in preventing "legislative bombshells," according to Agência Brasil (EBC).

FDI still healthy

Despite its economic woes, Brazil remains an attractive destination for foreign direct investment, according to the United Nations Conference on Trade and Development (UNCTAD). Brazil ranked fifth as a global destination for FDI in 2014, with inflows of US$62 billion, following China, the United States, Hong Kong, and Singapore.



Business news

Braskem reports bumper profits

Brazilian petrochemical company Braskem has reported a very healthy 748 percent rise in second-quarter earnings year on year. In its earnings release, the company attributed the rise to better operational performance, recovering petrochemical spreads globally, and the depreciation of the Brazilian currency.

Brazilians to get Britvic

UK soft drinks company Britvic has acquired Brazilian soft drinks manufacturer Empresa Brasileira de Bebidas e Alimentos (Ebba) for US$177 million, hoping to boost flagging domestic sales by expanding internationally.

The acquisition gives Britvic access to the sixth-largest soft drinks market globally and the largest concentrated drinks market in the world. Ebba sells dilutable concentrated drinks in Brazil, along with ready-to-drink nectar drinks.

Oi gets nod from ANATEL

The Brazilian National Telecommunications Agency (ANATEL) has confirmed that telecom company Oi has fulfilled most of the obligations that were set as conditions of approval for its 2008 purchase of Brasil Telecom. The merger required a change to a presidential decree that established regions of operation in which telecommunications services cannot be offered by providers with the same controlling company.

Oil & gas in brief

Auction terms under scrutiny

The Brazilian Petroleum Institute (IBP) suggested in early August that the terms of the 13th bid round for oil and gas exploration, set for October, could cause it to fail.

The National Petroleum, Natural Gas, and Biofuels Agency (ANP) will tender 266 exploratory blocks – of which only 10 are located in well-exploited areas such as the Campos and Espírito Santo basins – but contract clauses will restrict concession winners' right to extra-judicial arbitration. They will also be obliged to pay fines for local content violations before appeals are settled. The prospects on offer are nevertheless seen as attractive.

BG in Brazil

Reuters reported on 7 August that Royal Dutch Shell is mulling investing billions of dollars in Brazil after its planned acquisition of BG Group.

That would build on the current focus of BG Group, which is targeting more than a third of its capital spending for 2015 on Brazil, which will receive approximately US$2.4 billion. That keeps the company's Brazilian commitment stable at a time when its total annual spending will drop by 26–36 percent, according BNAmericas.

BG has just announced first oil from the Cidade de Itaguaí floating platform in the Iracema North area of the pre-salt Lula field. The platform is 240 km off shore and will double the gross production capacity of the Iracema development to 300,000 barrels of oil and 16 million cubic meters of gas per day. **…**



PHOTOGRAPH: WORLDMARITIMENEWS.COM

BG has just announced first oil from the Cidade de Itaguaí floating platform

BG holds a 25 percent share in block BM-S-11, which is jointly owned by operator Petrobras, with 65 percent, and Petrogal Brasil, with 10 percent.

PetroRio takes a stake

PetroRio, formerly HRT, has signed an agreement to acquire 20 percent of the rights and obligations of the concession contracts for Bijupirá and Salema fields from Petrobras, following its January purchase of an 80 percent share from Shell Brasil Petróleo. Subsequent to regulatory approval, PetroRio will hold 100 percent of both fields. Bijupirá and Salema are located in the Campos basin, in water depths of 480 m and 850 m. The concessions cover 40,000,000 m2, with an average daily production of 22,000 bbls of oil and 325,000 m3 of associated gas, which equates to 24,000 boed. The oil extracted from the fields is light, measuring from 28º to 31º API.

Technip's dance card

French oil services firm Technip has issued a 2015Q2 update indicating that Brazilian ultra-deepwater projects account for 22 percent of its current orders, including orders for the Lula Alto pre-salt project being developed by state-run company Petrobras. Technip has five orders to install subsea, umbilical, riser, and flow-line (SURF) packages for floating production, offloading, and storage (FPSO) units for Petrobras.

Refinery output slows

Output of oil derivatives at Brazilian refineries dropped 5.4 percent year on year from January to June 2015. Output over the period decreased from 390.807 million barrels the previous year to 369.681 million barrels, according to the National Petroleum, Natural Gas, and Biofuels Agency (ANP). Derivatives from shale oil fell 6.9 percent, contrasting with a 4.3 percent rise in liquids output at petrochemical plants.

Local content fines to ease

The current local-content policy for the Brazilian oil and gas sector has been in place for a decade, but increasing investments in the sector over that period have made it difficult for companies to source sufficient local suppliers to meet the requirements without project delays. **...**

Petrobras news

Changing the pre-salt goal posts

Senator José Serra of the opposition Brazilian Social Democracy Party (PSDB) presented a bill to Congress in June that could open Brazilian offshore pre-salt oil fields to greater foreign and private investment. The bill has the support of Senate leader Renan Calheiros of the Brazilian Democratic Movement Party (PMDB) and could pass as early as September. PMDB dominates both houses of Congress.

With the heavily indebted state-owned Petrobras scaling back its five-year investment plan significantly, to US$130.3 billion, the bill is intended to facilitate the investment needed to accelerate the highly promising pre-salt areas. The oil reservoirs are believed to contain at least as much oil as the North Sea fields.

Analysts believe the bill will pass with an amendment that would give Petrobras the right of first refusal over the operation of pre-salt fields. The current law was instituted by the Workers' Party (PT) and makes Petrobras the sole operator in any pre-salt projects – with at least 30 percent ownership and foreign participation permitted only the form of financial partnerships – but the company simply cannot afford to take up so many batons.

PMDB Senator Ricardo Ferraco is the bill's sponsor and intends to fast-track the process, which would permit a vote on the floor without the bill going through committees.

President Dilma Rousseff is opposed to **...**

deregulation but is unlikely to be able to stop it. PT is also largely opposed, but some members are expected to support the bill.

Robbing Peter to pay Paul

Petrobras hopes to raise US$15.1 billion from asset sales in 2015 and 2016 and a further US$42.6 billion from divestments and restructuring in 2017 and 2018. Sales could include all or part of the company's holding in petrochemical company Braskem, its BR fuel distribution business, gas pipeline operations, a network of power stations, and operations in Argentina. Stakes in some promising offshore oil finds are also on the table.

The goal of raising a total US$57.7 billion by the end of 2018 is formidable, and involves selling assets worth more than the company's current market value of US$44 billion into a distressed market. The proceeds will be put toward a US$125 billion debt.

Spending through to 2019 is now projected to be 37 percent lower than the previously projected $206.8 billion and the new production goal for 2020 is now down to 2.8 million b/d, a little more than half the 5.4 million b/d once envisaged.

Competing for Latin American spoils

Chilean investment fund Southern Cross (SC) may compete with Trafigura subsidiary Puma Energy for Petrobras Chilean assets, according to Chilean newspaper *Diario Financiero*. Peruvian Grupo Romero, linked to Banco de Crédito del Perú, may also be a competitor. Petrobras has 300 gasoline stations, 130 retail outlets, and 11 storage facilities up for sale in Chile. **...**

In June, the National Petroleum, Natural Gas, and Biofuels Agency (ANP) therefore indicated that it would ease fines for producers who fail to meet the guidelines, possibly as early as the oil license set for this October. The change will initially take the form of a more flexible methodology for calculating when targets are missed, rather than lower minimum requirements.

Biofuels in brief

A sweet fuel

Gratt Indústria de Máquinas plans to build an ethanol plant in the far northern state of Roraima, the least populated state in Brazil. The plant will produce 5,000 liters of fuel per day and animal feed by-product – all from sweet potatoes. The facility is expected to be operational within about 12 months following regulatory approval. The ethanol is expected to be used not only for transportation fuel but also for electricity production.

American fuel ethanol

The US Census Bureau reported a 5 percent increase in ethanol exports for the first half of 2015, largely as a result of Brazilian demand. Fuel ethanol exports to Brazil rose 42 percent year on year, and the 2015 figure overall is expected to double from 2014, to around 900 million liters.

Hydrous ethanol sales

Hydrous ethanol sales have risen 41 percent so far this year in response to a Petrobras initiative to boost gasoline and diesel prices in order to bring them into line with the global market.

As a result of the same trend, diesel sales have fallen by 2.4 percent and gasoline blended with 27 percent blended anhydrous ethanol have fallen by 5.8 percent.

The souring sugar market

Brazilian sugar mills are being shuttered as cane production averages up to US$28.64 per metric ton but sells at US$22.28 as sugar and ethanol. Some 10 mills have closed this season alone.

Electricity sector

Power sales up and down

Power utility Copel experienced a 1.2 percent rise in annual energy sales in 2015Q1. Overall sales reached 22.171 TWh, with generation and transmission contributing 9.432 TWh and distribution accounting for 12.223 TWh – increases of 1 and 1.3 percent, respectively. Copel distributes power to municipalities in Paraná and Santa Catarina states.

Tractebel Energia, on the other hand, experienced a 1.7 percent dip in year-on-year sales because of decreased industrial demand, although it managed a 13.2 percent gain in revenues as a result of higher prices. Tractebel **...**





PHOTOGRAPH: FLICKR/BUENGER SS

Petrobras has sought regulatory approval to restructure Transportadora Associada de Gas (Tag), its natural gas transport unit

Tidying up transport

Petrobras has sought regulatory approval to restructure Transportadora Associada de Gas (Tag), its natural gas transport unit. Tag's subsidiaries will be integrated into two new natural gas transport firms – one in the northeast and the other in the southeast. There will be no impact on operations.

Tightening up contract rules

In continuing efforts to get its house in order, Petrobras announced on 31 July that it was establishing strict new requirements for engineering firms bidding for its contracts. Under the new guidelines companies must provide details about their structure, finances, and compliance and anti-fraud mechanisms.

Petrobras is also reviewing the status of engineering firms that have been banned from bidding for new contracts due to alleged corruption and analyzing the status of companies with existing agreements before renewing them. It plans as well to install an independent ombudsman to investigate reports of irregularities.

Silver lining to the oil price

A combination of lower international prices and a slumping domestic economy turned loss into profit in the Petrobras refining unit, according to second-quarter earnings published in early August.

The company had been selling imported fuel at a loss when prices were high and demand was strong, but the oil price crash has eliminated much of the money-losing subsidy. Petrobras sold imported diesel at a 17 percent profit during the quarter, while the discount on gasoline narrowed to 5.3 percent.

Petrobras reported operating income in the second quarter was approximately US$2.69 billion before interest, taxes, depreciation, amortization, and profit sharing, exceeding analysts' expectations. That's just as well: net income was down 43 percent in January–June 2015 versus the first half of 2014. The oil production target for this year has been largely maintained so far at approximately 2.8 million barrels per day, up 9 percent year on year.

is a subsidiary of multinational GDF Suez and is the largest private power generator in Brazil.

Second line for Belo Monte

The State Grid Corporation of China will build and operate a second transmission line for the Belo Monte hydroelectric power complex. The 2,550 km line will cost US$2.2 billion and will run from the 11.2 GW Belo Monte complex in the north to Rio de Janeiro in the southeast. The deal also includes the construction of two new substations.

The deadline to complete the massive power project falls in 2018, but developer Norte Energia filed a request for a construction extension this past June. Progress is nevertheless being made. In mid-July, Norte Energia has awarded two contracts for the supply of mechanical equipment for the Belo Monte hydroelectric complex.

The first covers the supply of a new turbine and two generators. It amends a previous contract signed by the ELM Consortium, comprising Alstom, Andritz, and Voith. The second contract, valued at about US$15 million, was awarded to an Alstom-led consortium with Bardella and includes the supply of 18 provisional stop logs for Belo Monte's draft tube.

Environmental news

Resettlement spurs deforestation

A study funded by the Brazilian Congress and published by PLOS One has found that the resettlement of smallholder farmers has spurred deforestation in the Amazon, according to research on nearly 2,000 settlements. The findings contradict government claims that most deforestation occurs through logging before resettlement takes place. ...



PHOTOGRAPH: WIKIMEDIA COMMONS/ROBERTO STUCKERT FILHO/PRESIDÊNCIA DA REPÚBLICA

President Dilma Rousseff visited the United States at the end of June

Resettlement areas account for 13.5 per cent of deforestation in Amazonia since the 1970s, despite covering only 5.3 per cent of the land. Around 1.2 million people have been resettled since the 1970s,

US, Brazil agree on climate change

During her visit to the United States at the end of June, President Dilma Rousseff discussed climate change with US President Barack Obama.

At a bilateral meeting, the two countries agreed to obtain up to 20 percent of their electricity from renewable power by 2030, according to UK newspaper *The Guardian*. The United States will triple its production of wind and solar power and Brazil will double its production of clean energy, not including hydropower.

The initiatives were described as part of a new US-Brazil climate partnership. Under the agreement, Rousseff also committed Brazil to restoring up to 12 million hectares of forest in an attempt to help reduce carbon pollution.

Politics in brief

By the numbers

President Dilma Rousseff's personal approval rating is now at 8 percent, the lowest of any president since Brazil returned to democracy in 1985.

In a Datafolha survey of 3,358 people in 201 municipalities at the beginning of August, with a margin of error of 42 percent, 71 percent of those interviewed perceive the administration as "bad or terrible," up from 65 percent at the end of June. Those who saw the administration as "good or excellent" tumbled from 10 percent to 8 percent.

In the Datafolha poll, Rousseff's personal disapproval rate surpassed that for former president Fernando Collor de Mello on the eve of his impeachment in 1992. Some 66 percent now believe that Congress should start impeachment proceedings against the president, up from 63 percent in April.

The poll responses do not vary much by people's income or education level, revealing that even working-class Brazilians – who have traditionally supported the leftist Workers' Party (PT) – are becoming increasingly frustrated. Mass demonstrations are planned for 16 August to call for the president's resignation. Brazilians live in interesting times.

Leaving a sinking ship?

The Democratic Labor Party (PDT) and the Brazilian Labor Party (PTB) have left the ruling coalition, weakening a government already on its knees. Between them they take 44 seats from the 513-seat Chamber of Deputies.

Impeachment not a priority

Senate president Renan Calheiros said on 10 August that impeachment proceedings are not a priority because it would be "setting Brazil on fire," Agência Brasil (EBC) reported. On the same day, Workers' Party (PT) senators expressed support President Dilma Rousseff on the floor of the Senate, noting that the country needs its leaders to support a political compromise that will ally political instability and lay the groundwork for economic revival.

Legal issues

Dirceu arrested

On 3 August, Brazilian federal police arrested José Dirceu, chief of staff to former president Luiz Inácio Lula da Silva from 2003 to 2005. He was already under house arrest after being sentenced in 2012 for corruption in the *mensalão* cash-for-votes scandal. Now he is under investigation for allegedly receiving kickbacks in relation to the Petrobras corruption case.

Dirceu is the most senior member of the Workers' Party (PT) to be arrested in connection with the Operation Lava Jato investigation. He is a founding member of the party.

During Lula's administration, Dirceu was responsible for approving Petrobras appointments, and accepted that of Renato Duque to head the company's engineering and services division. Duque then allegedly implemented the framework whereby contractors paid kickbacks in exchange for works in that division. **...**

VEIRANO ADVOGADOS
Government & Regulatory...

Politicians investigated

More than 50 politicians are being investigated as part of Operation Lava Jato. Former Workers' Party (PT) treasurer João Vaccari remains under arrest and Chamber of Deputies president Eduardo Cunha has been accused of receiving kickbacks in connection with a Petrobras contract. Charges are expected in the near future.

Both Vaccari and Cunha deny wrongdoing, and the latter indicated in mid-July that he was considering legal arguments about whether to impeach President Dilma Rousseff, based on a request submitted by the civil activist Free Brazil Movement. He also supports the opening of congressional inquiries into issues sensitive to the government, such as its handling of the National Bank for Economic and Social Development (BNDES).

Cunha personally broke with the government and urged his party, the Brazilian Democratic Movement Party (PMDB), to leave the ruling coalition. It has not ... yet.

Former president Fernando Collor de Mello, who led Brazil from 1990 to 1992 before resigning under a cloud, is alleged to have received roughly US$7.5 million in kickbacks paid through shell companies. He allegedly obtained the funds from 2010 to 2014 for companies that existed only on paper and which investigators believe were created for the purpose of money laundering.

Collor is currently a senator and a political ally of President Dilma Rousseff. He appeared furious when defending himself at a Senate hearing on 5 August.

Lava Jato goes electric

The Lava Jato corruption investigation has opened a new phrase, with a focus on electricity companies. Some 23 search and seizure warrants, two detentions, and five ...

PHOTOGRAPH: WIKIMEDIA COMMONS/OLEG V. BELYAKOV/ARTFAM IMAGES



The first Saab Gripen JAS 39E/F fighter aircraft is scheduled for delivery in 2019 and last in 2024

Defense issues

Gripen financing gets green light

The Brazilian Senate has approved a financing agreement worth US$4.6 billion for the procurement of 36 Saab Gripen JAS 39E/F fighter aircraft, according to Reuters.

The agreement was signed on 5 August, ratifying a deal between the Brazilian Ministry of Defense and Swedish Export Credit Corporation. Brazil has 25 years to repay the loan at a fixed interest rate of 2.19 percent per annum, with an eight-year grace period.

The first aircraft is scheduled for delivery in 2019 and last in 2024. In addition to 36 aircraft already ordered, the Brazilian Air Force expects to field a further 72 Gripen JAS 39E/Fs by the time deliveries are complete.

Not taking off like a rocket

The Brazilian government has withdrawn from a bilateral space cooperation treaty with Ukraine. A treaty for the use of the Cyclone-4 rocket from the Alcântara Launch Center (CLA) was signed in 2003, focusing on the joint development of a three-stage rocket designed to launch low earth-orbit satellites. The treaty led to the creation of a bilateral joint venture company, Alcântara Cyclone Space (ACS), in 2007 with the aim of launching the first rocket by 2010.

The official explanation for the cancellation implied that the projects, which originally had a budget of US$290 million, had become too expensive. *The Economist* notes that Brazil may also fear Ukraine will not fulfill its sides of the deal because its space industry is located near Donetsk, which is controlled by Russian-backed separatists.

subpoenas were effected at the end of July. At issue are the alleged formation of a cartel with respect to the Angra 3 nuclear reactor and the payment of bribes.

The impact of the Lava Jato corruption scandal – which is reaching deep into the oil and gas and constructions sectors – is expected to cost the country over US$40 billion this year, as much as 2.5 percent of the economy.

Social issues

Amnesty accusation

Human rights organization Amnesty International released a report on 3 August indicating that Brazilian military police have been responsible for more than 1,500 deaths in the city of Rio de Janeiro over the last five years, according to the BBC World News. Officers allegedly frequently shoot suspects – many of them young and poor black men – who have already surrendered or been wounded.

The police themselves come under frequent fire, and 114 officers were killed in Rio in 2014 alone.

Minha Casa Minha Vida

The Minha Casa Minha Vida (My Home, My Life) federal low-income housing program got a boost in municipality of Maricá in Rio de Janeiro state on 2 August, as President Dilma Rousseff and Governor Luiz Fernando Pezão inaugurated almost 3,000 units.

Rousseff noted that the program will contribute 3 million homes by 2018 in its current phase, the third, after adding 1 million in the first phrase and 2.7 in the second. The president drew attention to the fact that the program creates not only housing but also employment.



PHOTOGRAPH: WIKIMEDIA COMMONS/WWW.KREMLIN.RU

Russian President Vladimir Putin and Brazilian President Dilma Rousseff met in early July

Diplomatic briefs

Putin and Rousseff

Russian President Vladimir Putin and Brazilian President Dilma Rousseff met in early July to discuss bilateral trade and to discuss cooperation in high-tech, space, and aviation projects. Brazilian Minister of Foreign Relations Mauro Vieira noted that the two countries are discussion joint energy and military projects.

A new Israeli ambassador

Dani Dayan, a former settler leader and chair of the Council of Jewish Communities of Judea and Samaria from 2007 to 2013, has been appointed as the next Israeli ambassador to Brazil. Dayan speaks Hebrew, English, and Spanish, though not Portuguese. On announcing the appointment, Israel Prime Minister Benjamin Netanyahu noted that developing Latin American markets is a strong objective of his government.

Erasing Israel

Brazilian citizens who were born in Jerusalem will no longer have Israel listed as their country of birth in their passports and similar documents. Israel and the Palestinian Authority lay claim to Jerusalem as the capital city of their current and future states, respectively. The new Brazilian policy follows that of Canada, France, and the United States.

International trade

Mercosur breakthrough

In mid-July in Brasília, Mercosur held its 48th summit. At the meeting, Bolivia was finally incorporated as the sixth permanent member of the bloc, joining Brazil, Argentina, Paraguay, Uruguay, and Venezuela.

VEIRANO ADVOGADOS
Commercial Contracts…

The big news of the summit was that after two decades, Mercosur and the EU appear ready to exchange offers on tariffs before the end of the year, possibly as early as October.

In addition, Uruguay, Paraguay, and Brazil have agreed to find a legal solution to overcome Mercosur resolution 32/2000, which requires consensus over trade issues, including in bilateral agreements. The stipulation causes gridlock, but Argentina has refused to consider changing it.

While the Rousseff administration has been reluctant to proceed without Argentina, but the dire state of the Brazilian economy has convinced the government of the urgent need to improve access to global markets.

Agribusiness is booming

At a recent trade show of Brazilian pork and chicken, Minister of Agriculture Katia Abreu remarked she was very optimistic that Mercosur would read a trade agreement with the European Union, indicating that she expected an exchange of proposals by November. The expected tariff reductions will affect Brazilian exports of agribusiness products.

In the same speech, the minister announced that for the first time in 16 years, the US market is now open to Brazilian beef. Likewise, South Africa is now open to Brazilian chicken and Russia to Brazilian dairy produce. Brazil is the world's leading exporter of chicken, and new markets are expected to boost exports by 8 percent. And Brazil will shortly begin shipping milk to China.

The minister also announced that and that Brazil is preparing to negotiate a sanitary accord with the EU to allow pork meat exports.

Business in Mozambique

A delegation of the Brazilian Trade and Investment Promotion Agency (Apex-Brazil) visited Mozambique at the end of July to drum up business. The machinery and equipment, building and construction, and food and beverage sectors were all represented by Brazilian companies, reflecting the varied composition of Brazilian exports to Mozambique.

In 2014, Brazil sent exports worth US$63.861 million to that country, in the form of poultry, generators and transformers, trains and materials for railways, tractors, footwear, furniture, and mining, construction, and agricultural machinery and equipment.

In the same year, Brazil US$10.207 million in goods from Mozambique. Trade between the two countries increased 129 percent from 2008 to 2014, thanks to the participation of Brazilian companies in major projects in the African country in recent years. Trade exchanges have soared since Brazilian mining company Vale participated in a railway project in 2008.

BNDES and the new BRICS bank

On 9 July, the National Bank for Economic and Social Development (BNDES) and other developing banks from the BRICS bloc signed an accord for cooperation between the member institutions and the New Development Bank (NDB). The document was signed during a summit meeting in the city of Ufa, in Russia. This accord establishes the basis for development banks to cooperate with the NDB.

The parties will explore possibilities for cooperation in financing, co-financing, and structuring guarantees in infrastructure and sustainable development projects. Projects of mutual interest can be implemented either in the BRICS member countries of in other developing nations. Financing for projects related to innovation and technology, energy efficiency, and environmental security is also on the table.

Export revenue falls

Although Brazil has exported record volumes of its key commodities so far in 2015, revenue has fallen 16 percent year on year, according to *Folha de São Paulo* newspaper. Soybeans, oil, and iron ore have all experienced price drops, which the depreciation of the Brazilian currency has only partially offset.

The fall in global commodity prices is being ascribed in part to reduced Chinese demand for raw materials as its economy slows.

Trade balance stays positive

The trade surplus was US$2.4 billion in July, with total exports of US$18.5 billion and imports of US$16.1 billion. The trade balance over 12 months has gone from a surplus of US$700 million to a surplus of US$1.5 billion, with a stable seasonally adjusted annualized three-month moving average of US$20 billion.

The trade balance has a US$4.6 billion surplus over the year to date, compared to a US$919 million deficit in the same period of 2014, according to data from Itaú BBA.



VERBATIM

VistaBrazil has a new addition

In Verbatim, readers will find a variety of useful information encompassing Veirano Advogados' recent developments, timely client alerts on new legislation and related information, publications authored by members of the Firm's team of specialists, and other current and pertinent content.

Firm news

Business mission to Australia

Celebrating 70 years of diplomatic relations between Brazil and Australia, the Brazilian government and the Australia Brazil Business Council are organizing a business mission in Sydney on 7–11 September for representatives of Brazilian companies.

As part of the activities, Ronaldo Veirano, founding partner of Veirano Advogados, will moderate an executive luncheon with the theme "Brazil in the city" on 9 September. The event will promote a debate entitled "The Strategic Brazil–Australia Partnership in the 21st Century: Its Business Dimension." Representatives of JBS, Embraer, the Macquarie Group, SEEK, and the Australian Trade Commission will attend. Continue reading...

Client alerts

Bid notice for Petrobras platform P-34

Petrobras Netherlands B.V., the Dutch subsidiary of Petróleo Brasileiro S.A. (Petrobras), represented by Petrobras itself, published an international bid notice in the Brazilian Official Gazette on 17 July 2015, for the sale of platform P-34 and spare parts. The bid is scheduled for 26 October 2015. Continue reading...

Penalty on debt applies to arbitral awards

The Special Court of the Superior Court of Justice (STJ) has confirmed that the 10 percent penalty on debt set forth in Article 475-J of the Brazilian Civil Procedure Code for the cases where the debtor does not voluntarily comply with judgments also applies to the enforcement of arbitral awards. Continue reading...

Reduction of work hours and salaries

The Brazilian government has just issued provisional measure 680/2015, which allows companies in financial distress to reduce the work hours and their salaries of their employees by up to 30 percent. Continue reading...

Publications

Private equity in Brazil

Veirano partners Ricardo Veirano and Gustavo Moraes Stolagli have collaborated to author a chapter entitled "Brazil – Private Equity 2015" for the latest edition of *The International Comparative Legal Guide to Private Equity*, published by International Comparative Legal Guides (ICLG). Continue reading...

The business of Brazilian mining

Veirano partners Pedro Freitas, Pedro Garcia, and Alexandre Calmon have collaborated to contribute a chapter on the main business aspects of mining in Brazil to *Getting the Deal Through: Mining 2015*, a handbook edited by Michael Bourassa and John Turner and published by Law Business Research. Continue reading...

Brazilian cartel settlements

Veirano associates Leonardo Duarte and Rodrigo Santos have authored a chapter entitled "Cartel Settlements in Brazil: Recent Developments and Upcoming Challenges" to *Overview of Competition Law in Brazil*, edited by Cristianne Zarzur, Krisztian Katona, and Mariana Villela and published by the Brazilian Institute of Studies on Competition, Consumer Affairs, and International Trade (IBRAC). Continue reading...

The Code of Civil Procedure

Veirano associate Gustavo Fróes has contributed an article to the *INTA Bulletin Law & Practice – Latin America & the Caribbean Subcommittee* on the new Brazilian Code of Civil Procedure (CPC). The article is entitled "The Brazilian Code of Civil Procedure and Its Impact on IP Litigation." Continue reading...

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