
Brazilian government proposes new bidding rules

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The Brazilian Report <hello@brazilian.report>
Reply-To: The Brazilian Report <hello@brazilian.report>
To: Laura <laura@brazilian.report>

Mon, Apr 29, 2019 at 8:01 AM



DAILY BRIEFING BY THE BRAZILIAN REPORT

Written by Gustavo Ribeiro · Apr 29, 2019

 *Good morning, Laura!*

- [Don't miss this](#). Government proposes new bidding rules.
- [Power](#). A slow week in Congress.
- [Money](#). State-owned companies' profits up by 132%.
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DON'T MISS THIS

Government proposes new bidding rules

Congress is analyzing a bill to establish a brand new regulatory framework for public bidding processes. The new law would make rules more flexible, altering selection criteria for companies and establishing better conditions for companies to fight the government if the administration fails to pay for the service that has been performed. The economic team defends that it will increase competition and make Brazil more attractive to foreign companies.

The bill was approved by a special House committee last December, and the Economy Ministry is trying to change it before it goes to a floor vote. Here are the main changes proposed:

- **Local bias.** The government wants to scrap protectionist measures that are not cost-effective for the state. As it is, Brazilian suppliers can offer prices up to 20% higher than foreign companies and still be awarded the contracts. The rule is championed by the Workers' Party—but reduces competition.

- **Insurance.** For projects above BRL 200m, companies must have insurance covering 20 to 30% of costs. The government wants the minimum at 30%. "I want more competition, but not any competition. If a player can't ensure 30%, it is unlikely to have the muscle to pull off the project," says César Mattos, Secretary of Competition at the Economy Ministry.
- **Bidding.** The government is against forcing all bidding processes to be open, defending it could facilitate collusion between companies. For some sectors, the government wants bidders to present sealed proposals, to be opened all at once—with the best price winning.

It remains uncertain whether or not an article banning companies under court-supervised reorganization from having contracts with the government will be included. That would keep several of the country's biggest—and most experienced—groups out of the game altogether.

POWER

A slow week in Congress

With Labor Day on Wednesday, this week is expected to be uneventful in Congress—with no deliberations around the pension reform. Tomorrow, the House should establish the schedule for debates in the House's special committee. This break could buy the government more time to operate a coalition that would prevent the dilution of the reform—but so far the Bolsonaro administration hasn't demonstrated much ability to do so.

Yesterday, President Bolsonaro met with Speaker Rodrigo Maia. The two publicly traded barbs last month—and Mr. Maia lashed out at the president's sons in an interview published by BuzzFeed on Friday (he called Carlos Bolsonaro "crazy" and Congressman Eduardo Bolsonaro "naïve"). But, according to Chief of Staff Onyx Lorenzoni—that's all water under the bridge.

Meanwhile, labor unions want to promote massive protests on May 1 against the overhaul of the social security system. 2019 brings an alliance never seen before—with every Brazilian trade union sharing the same stage in an event to be held in São Paulo's city center. Leaders expect to gather 200,000 people on Wednesday.

- **Brazil On The Record #8:** [What the Brazilian government is up to](#)

MONEY

State-owned companies' profits up by 132%

Combined, Brazil's major state-owned companies posted BRL 74.3bn in profits last year—the best result in 8 years, and a 132% jump from 2017. According to government officials, the results are linked to cost-saving measures and divestment policies—which should be increased from now on.

Economy Minister Paulo Guedes has promised a massive wave of privatizations of publicly-owned assets—including companies "no one even suspects." Front of the queue is the privatization of Eletrobras, Brazil's energy production and distribution company. A model has yet to be found. Docks companies are also on the list, as are many subsidiaries of public banks.

Stock market underperforming

Last year, Brazil's stock exchange was the world's most dynamic and lucrative. In 2019, however, the Ibovespa index is among the world's worst performers, even among emerging markets. On a list of 15 global markets, only Argentina and Turkey's indexes fared worse.

Ibovespa underperforming in 2019

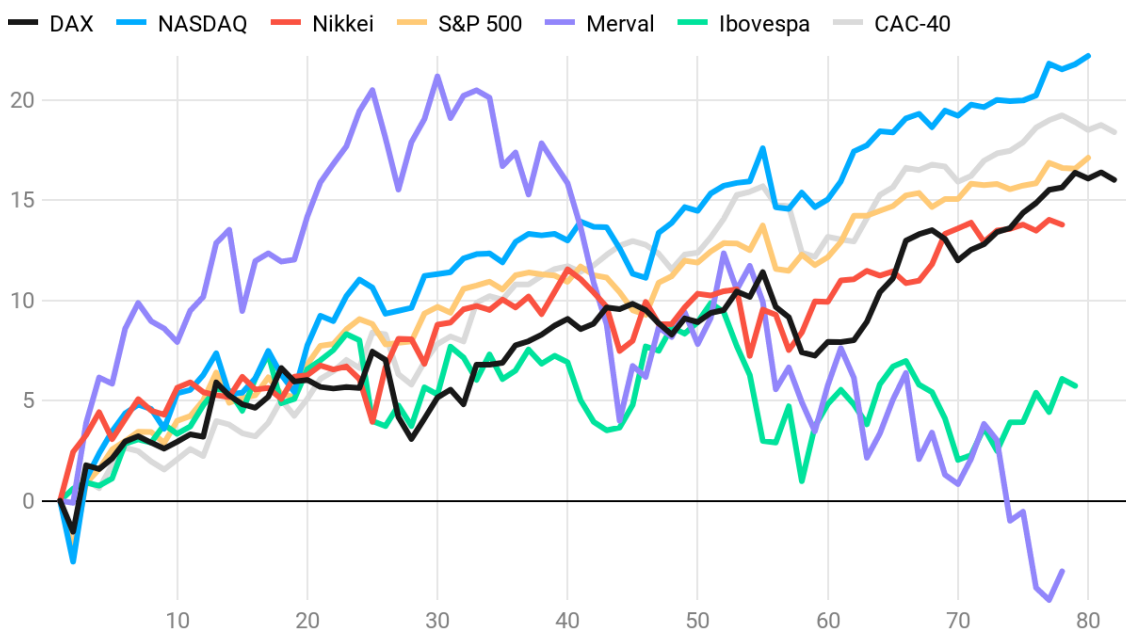


Chart: THE BRAZILIAN REPORT • Source: INVESTING.COM • [Get the data](#) • Created with Datawrapper

NOTEWORTHY

- **Vale.** Next week, mining giant Vale could be holding an election for its board members. Minority shareholders are vying for more power, having proposed to change how board members are elected—instead of a yes or no vote on the names proposed by controllers, they want each to be elected separately. Since the Brumadinho dam collapse, shareholders defend names with a proven track record in mining, sustainability, and corporate management.

- **Right-wing.** After São Paulo Governor João Doria became the most-powerful politician within the Brazilian Social Democracy Party (PSDB), he started defending a "rebranding" of the party. And one of the alternatives could be a merger with Democratas, a right-wing group which has its own names at the helm of both congressional houses. Together, DEM and PSDB would have 57 seats in the House—more than any other party.
- **Corruption.** Fundação Getulio Vargas (FGV), Brazil's most prestigious think tank, was cited by Rio's former governor Sérgio Cabral as part of a corruption scheme. He said his administration used studies made by FGV—and publicly financed—to back projects that would be used to funnel bribes. Mr. Cabral didn't directly implicate the institution, but said its directors were aware that the studies' conclusions were pre-determined.
- **LGBTQ.** Although President Jair Bolsonaro declared that Brazil "can't become the country of gay tourism," a recent study shows that the segment grew 11% last year—while the tourism industry as a whole grew only 3.5%. São Paulo's Pride Parade alone is capable of bringing 3m tourists and generating a revenue of BRL 190m. Worldwide, LGBTQ tourism is responsible for USD 218bn/year.



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