NEWS FROM THE
BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN

BRAZIL BUSINESS BRIEF

MAY 2018

NEWS FROM THE BRAZILIAN CHAMBER OF COMMERCE IN GREAT BRITAIN

CONTENTS

MESSAGE FROM THE CHAIRMAN

SÉRGIO GULLO
sergio.gullo@brazilianchamber.org.uk

Dear Members,

The capital markets have two main functions: to connect investors with companies that are in a position to attract capital through equity and other debt instruments; and to make investment transactions safer for investors and market participants.

Brazil, with its robust market infrastructure, has been attracting investment from sovereign wealth funds, pension funds, global asset managers, proprietary trading firms and ultra-high-net-worth individuals from dozens of countries. The country's domestic market is also sophisticated and diversified – and its investment fund industry, with more than USD 1.2 trillion of assets under management (AUM), is the seventh biggest in the world.

In this edition of the Brazil Business Brief we have an interview with the chairman of the Securities and Exchange Commission of Brazil (CVM), Marcelo Barbosa. In a wide-ranging conversation, Mr Barbosa makes clear the attractiveness of Brazil's finance and capital markets for investors worldwide.

Also on the topic of capital markets, we have a very informative article about why Brazilian companies should consider listing in London, written by Jack Shepherd of CMS, one of our new members, and Chris Mayo of the London Stock Exchange.

Another new member making an appearance in these pages is ASBZ Advogados, with Alexandre Gleria and Renata Bardella providing a fresh perspective on Brazil's tax system, suggesting that it might have been portrayed a little too negatively and that there are positive structural changes on the horizon.

We also have an insight into the reality behind a recent controversial issue, with Dr Sonia Gonçalves of King's College London investigating the impact of socio-economic and racial quotas in the admissions systems for Brazil's public universities.

Allow me also to take this opportunity to say that this year the Brazilian Chamber of Commerce has been focusing on four major topics: insurance and re-insurance, innovation, infrastructure, and green finance. All of them are, I believe, aligned with the interests of our members, with Brazil's business potential, and with the agenda of major global organisations.

As always, we are delighted when our members and associates engage with the Chamber and bring us ideas and suggestions for workshops, technical papers or round-table discussions.

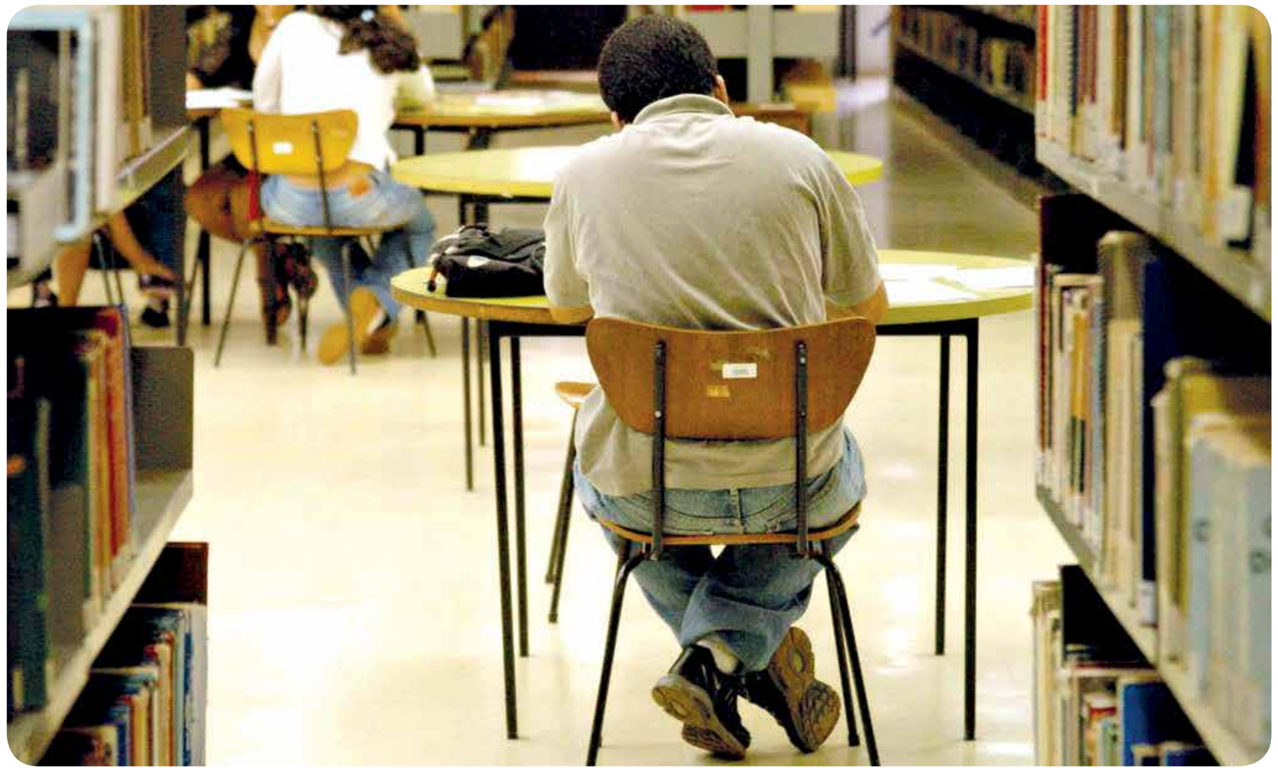
Enjoy this latest edition, and I look forward to meeting you at forthcoming events.

Sérgio Gullo
Chairman
Brazilian Chamber of Commerce in Great Britain,

ARTICLES

ON STUDENT QUOTAS AND THE EVALUATION OF PUBLIC POLICIES IN BRAZIL

BY SÓNIA DELINDRO GONÇALVES



On 16 March I had the opportunity to participate in the latest Best Legislative Practices event, organised by the British Embassy in Brazil and the King's Brazil Institute. In one of the panels, legislative advisers from the Senate, Brazil's upper house of Congress, acknowledged the importance of properly evaluating public policies and discussed the efforts Congress is currently making to that end. As a researcher interested in the impact evaluation of public policies in Brazil, it was reassuring for me to witness this commitment on the part of high-level policymakers. In Brazil, as in many other countries, the debate around public policies is often muddled by political ideology and by personal opinion based on limited anecdotal evidence, rather than being rooted in robust data and other forms of concrete evidence. And sadly this also extends to actual policymaking.

Over the last 30 years or so, some of the world's most widely praised policy innovations have been implemented in Brazil, such as Bolsa Familia and participatory budgeting. Even today, however, for the average researcher it is a Herculean task to find the kind of data on these programmes that is necessary in order to be able to properly assess their impact – for example, in the case of participatory budgeting, in which municipalities it was implemented, and the percentage of the municipal budget that is subject to popular discussion. Moreover, many programmes rolled out by either the federal or local governments appear to suffer from a lack of clearly defined objectives. What is their exact goal? How might we assess whether or not they have succeeded? Without a precise ex-ante evaluation of costs and benefits, and an ex-post impact assessment, it is too easy for policy debates to fall prey to ideological biases.

A federal programme surrounded by debate and controversy ever since its inception is the affirmative action policy for entrance to public universities in Brazil. Since 2012, all higher-education institutions in Brazil have had to reserve at least half of their places for students who have come through the public, not private, school system. And of those places for public-school students, half are reserved for students from underprivileged socio-economic backgrounds (referred to below as "low-income quotas"), and another portion, varying in size from state to state, is set aside for black, indigenous or disabled students.

> AS LONG AS THE DEMAND FOR PLACES ON COURSES AT BRAZIL'S PUBLIC UNIVERSITIES OUTSTRIPS DEMAND, WHICH IS CERTAIN TO REMAIN THE CASE FOR THE FORESEEABLE FUTURE, QUOTAS SERVE THE PURPOSE OF ENSURING THAT AT LEAST SOME OF THOSE PLACES GO TO STUDENTS WHO NEEDED THEM THE MOST

The purpose of the low-income component of the quotas is straightforward (even if not consensual). Public universities receive the lion's share of education spending in Brazil. They are free, generally superior and therefore more prestigious than the private universities, which means there is intense competition for places. In comparison with their counterparts emerging from the underfunded public school system, young people from wealthier, better-educated families, coming straight from private schools where they would have had the benefit of intensive (and expensive) pre-university courses, are in a far better position to gain places on the university courses of their choosing. This kind of socio-economic quota is therefore a practical means of breaking a pattern that favours the privileged and consolidates Brazil's pre-existing inequalities. As long as the demand for places on courses at Brazil's public universities outstrips demand, which is certain to remain the case for the foreseeable future, quotas serve the purpose of ensuring that at least some of those places go to students who needed them the most.

The racial component of the quotas, on the other hand, has provoked fierce debate, partly because its objectives are entangled with complex issues concerning racial identity and racial prejudice in Brazil (Schwartzman 2009).

ARTICLES

The opposition to quotas tends to rest on the argument that they prevent the best students from gaining entry to the public universities. This being the case, the argument goes, quotas will result in an overall lowering of the academic level in those universities, and a lessening of the boost to salary levels that is associated with higher education in general.

Almost 20 years since the first affirmative-action policies were introduced at a local level in Brazil, and six years since the nationwide introduction of low-income and racial quotas, a handful of rigorous, scientifically based impact assessments have become available.

First, the data clearly show that racial and socio-economic diversity in public universities has increased. The proportion of (self-declared) black students enrolled in public universities, for example, increased from 5.5% in 2005 to 13% in 2015, according to IBGE (the respected Brazilian Institute for Geography and Statistics).

While it is still too early for a full impact-assessment of the quotas on the labour market, and ultimately on the socio-economic mobility of the beneficiaries, a number of studies have shed light on the impact of quotas on academic performance.

Childs and Stromquist (2015), for example, took data from the initial experiments with affirmative action at the universities of Bahia, Brasilia and Campinas. What they found was that even though students who were the beneficiaries of the quota system had recorded worse average scores in their pre-university *vestibular* examinations than the non-quota students, the apparent difference in academic ability between the two groups disappeared when their results in other pre-university exams were taken into consideration. Furthermore, once they started their university courses, the drop-out rate among the quota students was lower.

More recently, the researcher Claudia Vidigal has published conclusions based upon the scores attained in 2012 by almost half a million Brazilian students in the National Examination of Student Performance (an exam taken in the first and final year of their degrees) across all the country's universities. She found that, on average, students admitted via the low-income quota performed significantly worse than their non-quota counterparts (Vidigal 2018).

But, on the other hand, Vidigal found no statistically significant difference in academic performance between the students who were the beneficiaries of racial quotas and those who were not, when other variables such as income, type of university and gender were also taken into account.

Overall, the evidence so far suggests that while quotas increase diversity in public universities and give disadvantaged groups access to a high-quality tertiary education that they would not otherwise have, low-income quotas alone might not be sufficient to significantly diminish inequalities and ensure social mobility. For that purpose they would have to be complemented by other social policies.

This is the kind of evidence that should guide the policy debate, design and reform. Ideological *achismos* should not be permitted to play a role. After all, as we say in Portuguese, *Contra fatos, não há argumentos.*

References:

Childs, P., and N. Stromquist (2015). "Academic and Diversity Consequences of Affirmative Action in Brazil." Compare, 45.

Ferraz, C. (2018). "Precisamos de políticas públicas com evidências". Nexo Jornal, 7 March 2018

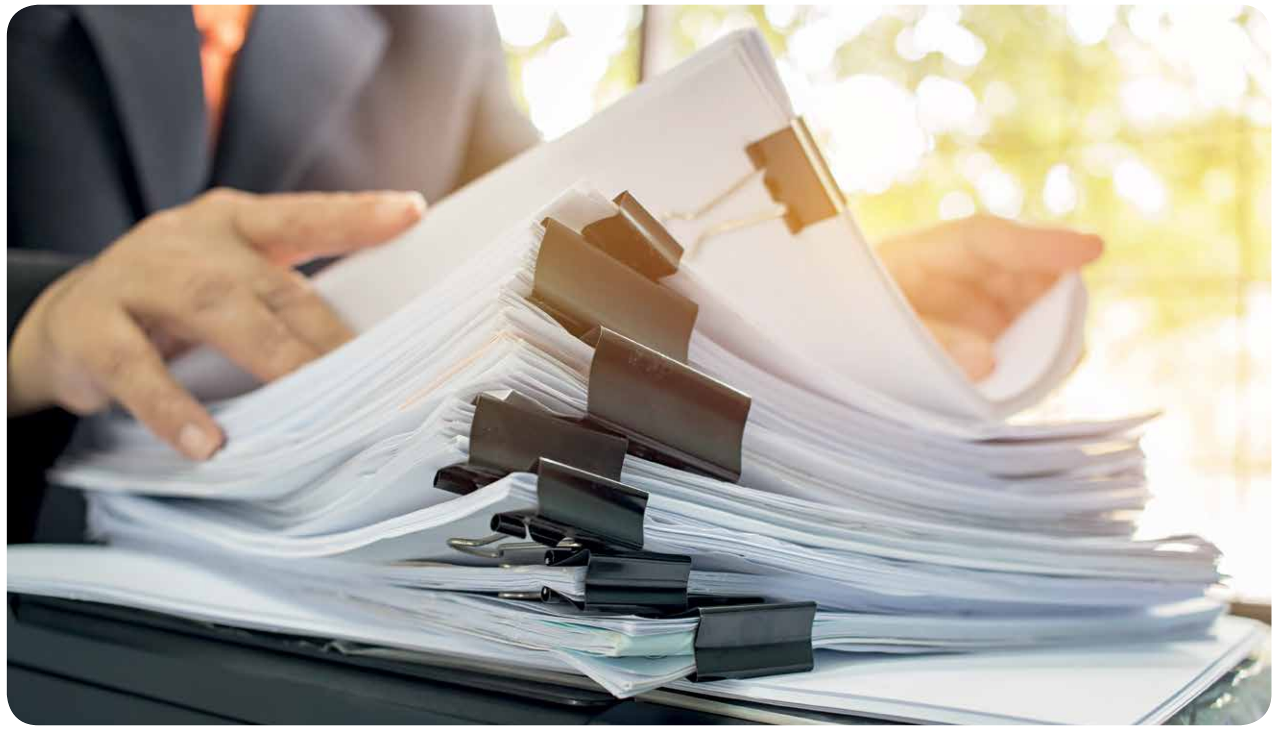
Schwartzman, S. (2009). "Student quotas in Brazil: The policy debate". International Higher Education. 56.

Vidigal, C. B. R. (2018). "Racial and low-income quotas in Brazilian universities: impact on academic performance", Journal of Economic Studies, Vol. 45, 1.

EXPEDITED DISPUTE RESOLUTION

HOW DISPUTES IN THE BRAZILIAN ENERGY AND COMMODITIES SECTOR CAN BE RESOLVED QUICKLY USING INTERNATIONAL ARBITRATION

BY KAREN ELLISON



Brazil is an important player in the global commodities industry. Among the country's top exports in 2017, for example, were soybeans (worth an estimated USD 25.7 billion, up 33% since 2016), sugar (USD 11.4 billion, up 9.4% since 2016), and iron ores and concretes (USD 19.2 billion, up 44.5% since 2016).[1]

Such significant sums make the sale and purchase contracts governing these products a valuable and important commodity in their own right. Often such contracts are governed by English law, and provide for any disputes arising to be resolved by international arbitration.

While international arbitration remains a popular choice, including for Brazilian companies, a common complaint about arbitration proceedings is the length of time it can take to resolve a dispute and obtain a final award. Apart from being an unwelcome distraction, prolonged proceedings result in increased costs and extra demands upon a company's management resources.

This need not always be the case in the energy and commodities sector, however, as there are various expedited procedures available to enable faster dispute resolution. Some of these procedures are well established, having been available in the industry for many years. Others are recent developments – for example the International Chamber of Commerce (ICC) enacted its Expedited Procedure Provisions on 1 March 2017.

ARTICLES

	ICC	LMAA[2]	GAFTA[3]	FOSFA[4]
RULES/ PROCEDURE	Article 30 and Appendix VI of the ICC Rules 2017	Fast and Low Cost Arbitration Procedure (FALCA)	Simple Dispute Arbitration Rules No.126 (June 2014)	Small Claims Single Tier Rules of Arbitration (September 2008)
IS MUTUAL AGREEMENT REQUIRED?	No – expedited procedures will apply in certain circumstances, unless the parties agree to opt out.	Yes	Yes	Yes
CONDITIONS OR RESTRICTIONS ON USE	Applies automatically to arbitration agreements postdating 1 March 2017, where the amount in dispute does not exceed US$ 2,000,000, or the parties agree to apply the expedited procedure (though the ICC Court may decide this procedure should not apply)	Parties may choose for themselves the value of the claim to which the FALCA Rules will apply. If no figure is chosen they apply to claims under US$ 250,000.	Unsuitable for claims involving complicated legal issues or lengthy arguments. Gives a quick answer without a fully reasoned award.	None, except mutual agreement.
APPOINTMENT OF ARBITRATOR	A sole arbitrator is normally appointed, although this may be overridden by the ICC.	A sole arbitrator is agreed upon or appointed by the President. Should the amount in dispute exceed that specified in the arbitration clause, parties can require the Tribunal to be expanded to 3 arbitrators.	Unless the parties agree otherwise, GAFTA shall appoint a sole arbitrator.	A sole arbitrator is agreed upon or appointed by FOSFA.
APPROXIMATE TIMING FOR SERVICE OF WRITTEN SUBMISSIONS AND PROCEDURAL HEARINGS	The Tribunal may adopt such procedural measures as it considers appropriate. A procedural hearing generally takes place no later than 15 days after the file was transmitted to the Tribunal.	Service of submissions within 14 and 28 days.	Service within 7 business days for each set of submissions.	Submissions and an agreed common bundle of documents should be given to the arbitrator without delay after the notice claiming arbitration.[5]
DISCLOSURE	The Tribunal may, after consultation with the parties, decide not to allow requests for document production.	Mutual discovery of relevant documents, with the opportunity to apply to the arbitrator for specific documents.	No disclosure: documents served with submissions.	No disclosure, documents served with submissions. The arbitrator can request further documents.
WITNESS AND EXPERT EVIDENCE	The Tribunal may, after consultation with the parties, decide to limit the number, length and scope of written witness and expert evidence.	Witness statements and experts' reports exchanged within 6 weeks of discovery. Reply witness statements and expert reports exchanged 4 weeks thereafter. The arbitrator may consider witness statements or reports, whether strictly admissible/sworn or not.	No witness or expert evidence provided for in the rules.	No witness or expert evidence provided for. The arbitrator may hear evidence if desired and the parties may make a request to present oral evidence.
WITNESS AND EXPERT EVIDENCE	The Tribunal may, after consultation with the parties, decide to limit the number, length and scope of written witness and expert evidence.	Witness statements and experts' reports exchanged within 6 weeks of discovery. Reply witness statements and expert reports exchanged 4 weeks thereafter. The arbitrator may consider witness statements or reports, whether strictly admissible/sworn or not.	No witness or expert evidence provided for in the rules.	No witness or expert evidence provided for. The arbitrator may hear evidence if desired and the parties may make a request to present oral evidence.
HEARINGS	The Tribunal may decide the dispute on documents alone, with no hearing or examination of witnesses.	No oral hearing, unless the arbitrator requires an oral hearing and/or the oral examination of any witness or expert.	A party may present their case orally, but cannot be represented by legal professionals.	The arbitrator shall give reasonable notice before any oral evidence is heard. The parties cannot be represented by legal professionals.
TIME FOR JUDGMENT / AWARDS	Within 6 months of the case management conference.	Within 7 months of notice of the arbitrator's appointment (8 months if there is a counterclaim).	Within 7 days of the conclusion of the arbitration.	For quality and condition claims, awards shall be sent for typing within 28 days from the date of the claim.
FEES AND COSTS	Fixed according to scales for administrative expenses and arbitrator's fees, and general rules on costs.	No express provisions relating to fees within the FALCA rules. The arbitrator may make an award as to costs.	The total costs and fees are laid down by the Council. There are no express provisions relating to legal costs under the Simple Dispute Arbitration rules. Under the GAFTA Rules, legal costs are not recoverable unless the parties agree.	The arbitrator can determine who will pay fees / expenses / costs. The Federation's fees are currently £250.

Conclusion

Given the benefits offered by expedited procedures:

- this may be a good time to revisit standard contract terms and consider whether expedited procedures may be appropriate in alleviating aggravation and business disruption associated with lengthy, drawn-out disputes; and
- when disputes arise, particularly for low-value transactions, parties should consider discussing expedited procedures with their counterparties.

1. http://www.worldstopexports.com/highest-value-brazilian-export-products/, accessed 12 March 2018.
2. The London Maritime Arbitrators Association
3. The Grain and Feed Trade Association
4. Federation of Oils, Seeds and Fats Associations
5. Specific time limits are provided for quality and condition claims.

ARTICLES

PROSPECTS FOR THE RENEWABLE ENERGY MARKET IN BRAZIL

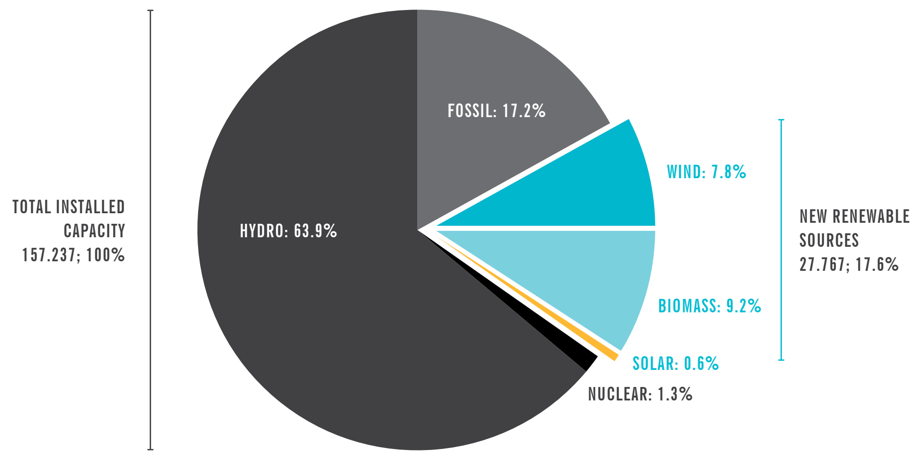
BY ANDRÉ LAWSON, GUILHERME PEREIRA, AND MARIANA WEISS

The Brazilian energy matrix, known for its large share of hydro power plants, has in recent years been following a worldwide trend of increasing investments in so-called new renewables – wind, biomass and solar. Since 2015 the installed capacity of these sources has increased by 6 GW, or approximately 40% of the country's total recorded expansion. As a result, in January 2018, solar, wind and biomass together already surpassed fossil sources in terms of installed capacity (Graph 1), and this expansion is expected to continue.

Operation and expansion planning for the Brazilian power system is centralised. Based on projected demand by power utilities, the central planner establishes the expansion requirements so as to guarantee the necessary supply. If an expansion of the power system is required, New Energy Auctions (NEA) are held so that power utilities can hire energy from new power plants. Auctions are price-based, so the lowest cost power plants are granted the right to provide power for a pre-defined period. It is also worth noting that, in these auctions, competition is confined to each of the power sources. In other words wind generators only compete with wind generators, and so forth.

GRAPH 1

BRAZILIAN ENERGY MATRIX (IN MW) - JANUARY 2018



SOURCE: ANEEL

The 25th and 26th NEAs, held in December 2017, the first since April 2016, represented the resumed expansion of Brazil's power-generation capacity, and placed considerable emphasis on wind and solar sources. The 25th NEA was projected to hire energy from renewable sources – hydro, biomass, wind and solar photovoltaic – and to start supply by 1 January 2021. The 26th NEA aimed to procure energy not only from renewable sources but also from coal-fired or natural gas-fuelled thermal plants that will start supplying power by 1 January 2023.

All the power lots in both auctions were successfully sold, which demonstrated that stakeholders in the electric power sector, after years of diminished activity, are not only keen to invest but also optimistic about the sector and the country's development prospects in general. The 25th and 26th NEAs contracted 674.51 MW and 3,841.62 MW respectively, as shown in Table 1. When analysing the characteristics of the winning projects, one can observe the predominance of distinguished and well-established companies, thus reducing risks involving new businesses. In addition these auctions were also noteworthy for the decreased participation of the Brazilian Development Bank (BNDES) in the projects, which may become a new trend in the sector.

The results were also marked by significant discounts in contracted energy prices – a great relief for power distribution companies, which were able to buy less expensive electricity supplies. In addition to the presence of a high number of well-established power companies, which meant there was intense competition, other factors also proved decisive in bringing about this result. It is worth highlighting, for example, a new business arrangement in which manufacturers of power-generation equipment participate as project partners; the industry's idle capacity in Brazil, after a long period without new projects; and expectations of lower interest rates in future, an incentive for investment especially at a time when the country is showing signs of economic recovery.

TABLE 1

RESULTS OF THE 25TH AND 26TH NEW ENERGY AUCTIONS - NEA

ENERGY SOURCE	NUMBER OF PROJECTS	POWER (MW)	PHYSICAL GUARANTEE (MWAVERAGE)	AVERAGE PRICE (R$/MWH)	CEILING PRICE (R$/MWH)	DISCOUNT (%)
25TH NEW ENERGY AUCTION						
NATURAL GAS	1	25.00	8.60	234.92	329.00	28.6
NATURAL GAS	2	64.00	38.00	108.00	276.00	60.9
NATURAL GAS	2	11.51	9.50	181.63	281.00	35.8
NATURAL GAS	20	574.00	172.60	145.68	329.00	55.7
TOTAL	**25**	**674.51**	**228.70**	**144.51**	**318.67**	**54.7**
26TH NEW ENERGY AUCTION						
NATURAL GAS	6	177.06	112.50	216.82	329.00	34.1
NATURAL GAS	49	1,386.63	773.60	98.62	276.00	64.3
NATURAL GAS	2	2,138.91	1,968.30	213.46	319.00	33.1
NATURAL GAS	6	139.03	76.53	219.20	281.00	22.0
TOTAL	**63**	**3,841.62**	**2,930.93**	**189.45**	**309.04**	**38.7**

SOURCE: CCEE

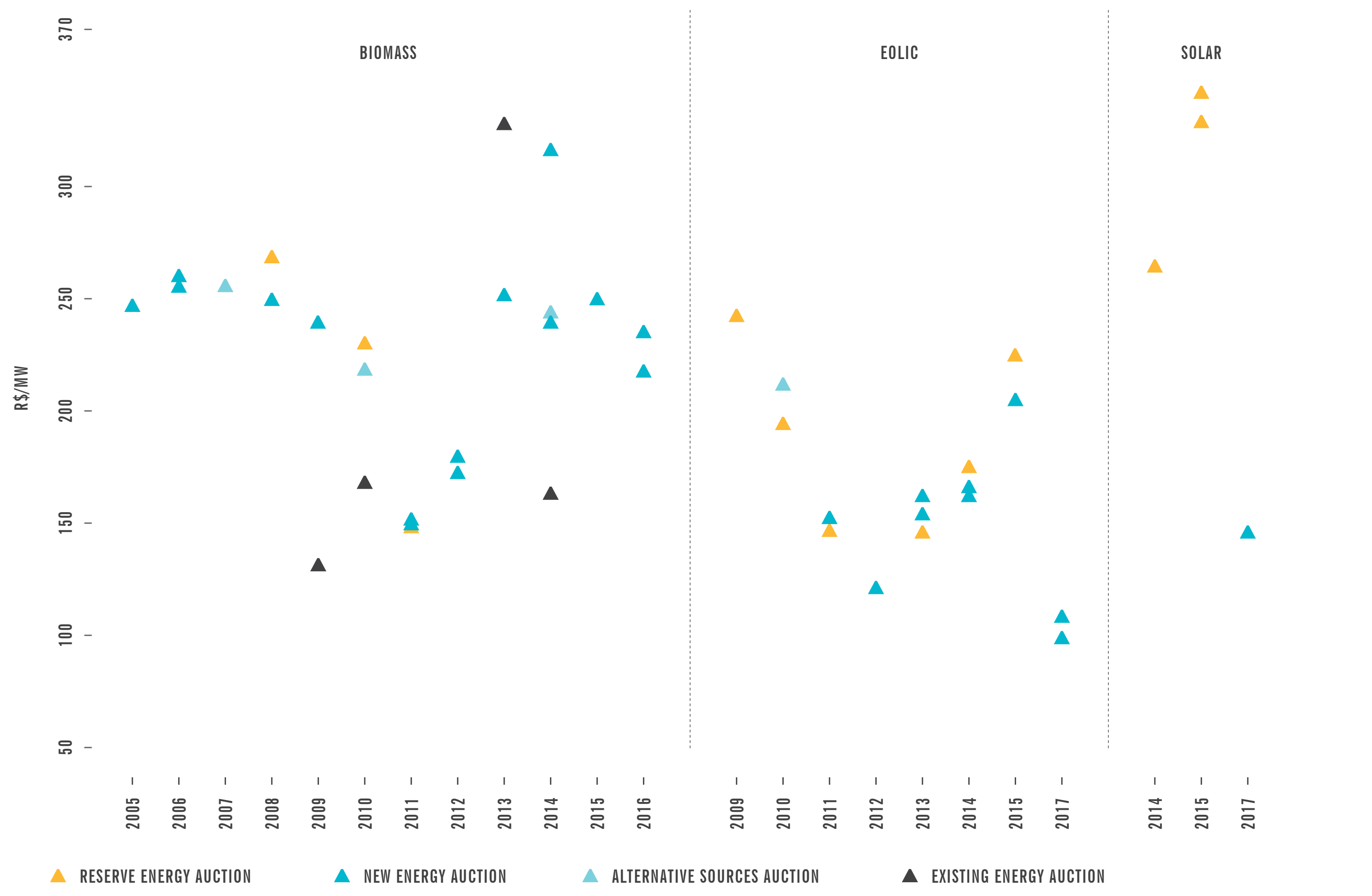
Wind power was the overall winner in the 25th and 26th NEAs, with 51 projects sold and a total hired capacity of 1,450 MW. Discounts were in excess of 60.9%, with an average bid price of R$ 108.00/MWh in the 25th NEA and R$ 98.62/MWh in the 26th NEA. The average price in the 26th auction was the lowest verified price for wind power in the history of Brazil's power auctions, as can be seen in Graph 2. The highlight was Enel Green Power, which was responsible for tendering 21 wind plants. Therefore wind power has established its increased participation, mainly in the northeastern region where it has been responsible for more than half of the energy generated in recent months.

Restricted to the 25th NEA, the solar photovoltaic source stood out: 574 MW or 85% of capacity was contracted in the auction. As well as wind power, photovoltaic generation projects are mostly found in the Northeast subsystem. Since it was only available in this auction, increased competition may have contributed to photovoltaics having, for the first time ever in an auction, an average price lower than other sources such as biomass thermal plants or small hydro (Table 1). In addition, solar energy's average price at the 25th NEA was considerably lower than at previous power auctions. There is uncertainty, therefore, as to whether prices will again go as low as R$ 145.68/MWh in the near future.

On the other hand, the capacities of biomass power plants and small hydro plants were contracted to a lesser degree than in previous auctions: 202.1 MW and 150.5 MW respectively. These sources presented the highest average prices in the 25th and 26th NEA, as can be observed in Table 1. Regarding biomass, a certain stability in prices can be perceived – which is not the case with wind and solar energy, where the expectations are of falling costs in the years to come.

GRAPH 2

AVERAGE SELLING PRICES FOR DIFFERENT AUCTIONS AND SOURCE TYPES. AMOUNTS ADJUSTED BASED ON IPCA (INFLATION INDEX) (DECEMBER 2017).



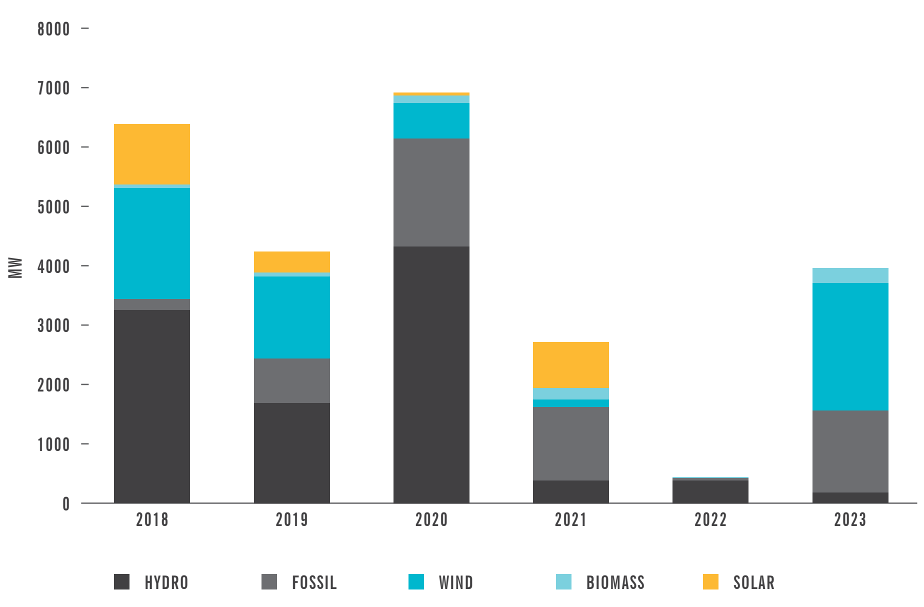
SOURCE: CCEE

Therefore, based on the 25th and 26th NEA results, it is projected that Brazil will have added 24.7 GW of new capacity by 2023, with 36% coming from new renewables (Graph 3). The national 10-year energy expansion plan developed by the Brazilian Energy Research Company (EPE) also forecasts average annual growth of 1.7 GW for wind power, 1 GW for solar, 458 MW for biomass and 188 MW for small hydro between 2020 and 2026. EPE therefore estimates that new renewables will account for no less than 30% of the Brazilian electric matrix in 2026.

However, the expansion of renewables in Brazil relies on new auctions promoted by the government. The next NEA is scheduled for 4 April this year. Wind and photovoltaic sources once again have most of the auction registrations, both in terms of the number of projects and generation capacity. Additionally, the National Council for Energy Policy (CNPE) has stated that a further three auctions might be held later this year, one of which would be another NEA, one for supplying the state of Roraima, and the other for alternative sources only. At the same time, the planned expansion of the generation matrix has been accompanied by the expansion of the transmission grid, in order to enable electricity to reach consumers safely. Two power transmission auctions took place in 2017 and more auctions are expected in 2018.

GRAPH 3

POWER GENERATION EXPANSION CONTRACTED UP TO 2023



SOURCE: ANEEL

THE BRAZILIAN PHOTOVOLTAIC SOLAR ENERGY ASSOCIATION (ABSOLAR) HAS RECOMMENDED THAT THE MINISTRY OF MINES AND ENERGY (MME) SCHEDULE AN AUCTION FOR LATER THIS YEAR, WHICH WOULD INCLUDE PHOTOVOLTAIC PLANTS COMMENCING SUPPLY IN 2020.

On the other hand, there is concern in the Brazilian photovoltaic industry because as yet there are no auctions planned for projects to be delivered in 2020. In an attempt to prevent this gap from hampering the development of the industry, the Brazilian Photovoltaic Solar Energy Association (ABSOLAR) has recommended that the Ministry of Mines and Energy (MME) schedule an auction for later this year, which would include photovoltaic plants commencing supply in 2020.[1]

In addition, considering the expected increase in non-dispatchable renewables (wind and solar) in the electric matrix, it is also necessary to add projects capable of providing flexibility to the system to ensure reliability when solar and wind plants are not producing electricity – for example fast-response thermal plants and hydro reservoirs. In that regard, contracting gas-fired power plants in the 26th NEA was a positive move because of their efficiency in terms of costs and benefits and their lower greenhouse-gas emission levels compared to other fossil fuel sources. The planning agencies, however, must avoid the risk that adding more intermittent renewable sources to the energy matrix may be accompanied by increased use of fossil-fuel power plants, and therefore also by increased greenhouse-gas emissions.

In this way, Brazil has been following the global trend of increasing investments in wind and solar generation. The highly competitive prices seen in the last two NEA point to the increased competitiveness of new renewables and an increase in their share of Brazil's energy matrix in the coming years. One should bear in mind, however, that the growth of non-dispatchable renewables would also require the expansion of dispatchable sources. In this case, although this is always a controversial debate, the current choices are still thermal or hydro plants.

1. https://www.canalenergia.com.br/noticias/53045624/leilao-a-4-apesar-do-alivio-demanda-frustra-associacoes

WHY BRAZILIAN COMPANIES SHOULD CONSIDER A LISTING IN LONDON

BY JACK SHEPHERD AND CHRIS MAYO

With the Brazilian economy slowly improving and the change in the role of BNDES as the main lender for big projects in Brazil, some Brazilian companies may be considering the public markets.

Despite an increase in 2017, the number of initial public offerings (IPOs) in Brazil remains low by international standards. Furthermore, last year only one company went public in Brazil with a market capitalisation below US$500m and not a single company floated with a valuation below US$250m. Therefore, small and mid-cap Brazilian companies may be asking whether a listing on a foreign exchange, such as London or in the US, is more suitable.

With London seeing more than 100 IPOs in 2017, its biggest total since 2014 and more than eight times the number in Brazil, this article explains why a London listing may be a more attractive and less costly option – relative to Brazil or the US – for small and mid-cap Brazilian companies, especially international growth businesses in the technology, life sciences and natural resources sectors.

ARTICLES

WHY JOIN THE PUBLIC MARKETS?

Companies join the public markets for a variety of reasons, including:

- providing access to capital, both at the time of listing and through further capital raisings;
- providing a market for the company's shares, allowing founders/venture capital/private equity investors with an exit;
- incentivising employees by making share schemes more attractive; and
- enhancing the company's ability to make acquisitions, using its listed shares as consideration.

WHAT MARKETS DOES LONDON OFFER?

The Main Market is London's flagship market for larger, more established companies. Companies can list on the Premium segment, which is subject to the highest standards of regulation and corporate governance, or the Standard segment, which is subject to EU minimum standards.

The Alternative Investment Market (AIM) is London's market for smaller, growth companies and has been very successful, raising over $175bn since it launched 22 years ago.

LAST YEAR LONDON LISTED MORE COMPANIES WITH A MARKET CAP BELOW $250M THAN NYSE, NASDAQ AND THE COMBINED TOTAL OF EVERY PUBLIC MARKET IN LATIN AMERICA. IN PARTICULAR, THE AVERAGE MARKET CAP AT IPO ON AIM IS APPROXIMATELY $100M, COMPARED WITH APPROXIMATELY $450M ON NASDAQ

WHY CHOOSE LONDON?

We believe a London listing offers the following advantages:

- **The most international stock exchange** – London is home to more international companies[1] than any other exchange. As of January 2018, 31% of London listed companies were international, compared with 22% on NYSE and 15% on NASDAQ. In 2017, nine of the 10 largest IPOs in London were international companies, compared with one on NYSE and none on NASDAQ. Last year London also welcomed some new Brazilian listings: (i) RHI Magnesita, a global leader in refractory projects and services, on the Main Market, following the $2.7bn merger of Austria's RHI with its Brazilian rival Magnesita; and (ii) Jangada Mines, a resource company principally focused on a mining project in the north-east of Brazil, on its $12.7m AIM IPO;
- **Vibrant small cap ecosystem** – In addition to supporting large-cap international IPOs as mentioned above, London has a diverse mix of high-quality institutional investors who are very supportive of small-cap companies, with a particular focus on international growth businesses. Last year London listed more companies with a market cap below $250m than NYSE, NASDAQ and the combined total of every public market in Latin America. In particular, the average market cap at IPO on AIM is approximately $100m, compared with approximately $450m on NASDAQ. This demonstrates a fundamental difference between London and the US markets: companies with an equity value of less than $500m may find it difficult to join NASDAQ or NYSE (there has not been an IPO for a Brazilian company of that size in the US in the last five years), as US institutional investors have little appetite for companies of that size; and
- **Lower transaction costs and litigation risk** – London typically has lower underwriting fees and other transaction costs than the US and Brazil. Last year, average underwriting fees on IPOs for deal sizes of between $50 and $500m were 3.2% of the amount raised on AIM and 2.4% on the Main Market, compared with 6.2% on NASDAQ and 5.9% on NYSE; with underwriting fees in Brazil averaging at 3.45% across all IPOs (although this number is distorted by the dominance of large cap IPOs in Brazil, as noted above, where fees tend to represent a lower percentage compared to small and midcap IPOs). Furthermore, other transaction fees and litigation risk are much higher in the US than the UK.

LONDON'S MARKETS OFFER ACCESS TO HIGH-QUALITY INSTITUTIONAL INVESTORS AT A LOWER COST, AND VENTURE CAPITAL/PRIVATE EQUITY SHAREHOLDERS WITH ROUTES TO LIQUIDITY AND AN EXIT

THE ELIGIBILITY REQUIREMENTS

Each market in London has different eligibility requirements for listing.

To join the Main Market, the company must:

- produce a prospectus (a detailed document about the company which is vetted and approved by the UK Financial Conduct Authority (FCA))
- have at least 25% of its shares held in public hands[2]
- have a three-year revenue-earning track record (if seeking a Premium listing)

The eligibility requirements for AIM are not as onerous as for the Main Market. For example:

- companies have to produce an admission document which is a slimmed down version of a prospectus and is not vetted or approved by the FCA or any other regulator
- there is no official minimum percentage of shares that have to be held in public hands, although generally companies will be expected to have at least 15% to 20%
- there is no requirement for a three-year revenue-earning track record

CONCLUSION

Small and mid-cap Brazilian companies with an equity value in the range of $30m to $500m should consider London as their listing venue. London's markets offer access to high-quality institutional investors at a lower cost, and venture capital/private equity shareholders with routes to liquidity and an exit. This is especially the case for international growth businesses in the technology, life sciences and natural resources sectors.

1. Companies with headquarters in a different country from their primary listing venue.
2. Broadly excludes shares held by directors and shareholders with at least a 5% holding.

ARTICLES

TURNING THE BRAZILIAN TAX SCENARIO TO YOUR ADVANTAGE

BY ALEXANDRE GLERIA AND RENATA BARDELLA

Brazil is often depicted as an uncompetitive country with a high tax burden. It is an image that often scares away investors – particularly those who are not very well informed.

But that picture is not completely accurate, and in reality the prospects for companies investing in Brazil are likely to depend on their area of business and what precisely they are aiming to achieve. In many cases investors have a pleasant surprise when they take a closer look at the Brazilian tax scenario and consider it from a long-term perspective.

Brazil's tax system levies excessive rates upon consumption, and also imposes high nominal rates on income and revenue. In those senses the tax burden is more onerous than in most other countries, including Brazil's closest competitors for foreign investment such as the other BRICS.

In addition, Brazil is shrouded in a barely believable fog of bureaucracy and complexity. According to a recent study by the World Bank, for example, Brazil is the country in which a legal entity has to spend the most time preparing to comply with its tax obligations – almost 2,000 hours per year, which is more than double the time needed in the second-placed country, Venezuela. Another study conducted by a reputable trade organisation suggested that if bureaucracy in general were less of a problem, Brazil's GDP per capita might be 17% higher. As a further illustration of this gargantuan problem, more than 4 million new tax rules have been introduced in Brazil at the federal, state and municipal levels since the enactment of the 1988 constitution.

Nevertheless, hidden in the midst of this seemingly extreme and hostile environment are some surprisingly positive aspects of Brazilian tax legislation. To start with there are tax benefits, designed either to attract new businesses from abroad or help those that are already established in the country. For example Brazilian legislation grants a varied set of benefits to exporters, with numerous incentives in the form of reduced taxes when it comes to setting up a production plant or outsourcing. In the procedural field it is not rare to see Brazil's tax authorities granting special regimes to facilitate companies' issuance of invoices or tax payments.

Loopholes and unregulated areas may also provide significant opportunities for tax-paying companies – as in the case of the several tech startups that have taken advantage of the much lower level of taxation in Brazil, in their particular area, than in most developed countries. There is currently also a long list of active litigation cases in Brazil in which companies have been successful in claiming tax refunds on the basis of legislative grey areas.

Moreover, from time to time the Brazilian government seeks to boost revenues by implementing special tax-regularisation programmes with very attractive terms – for example by granting significant reductions in fines, and in the interest charged on tax arrears? This is always a good way for companies to terminate outstanding litigation or avoid new cases.

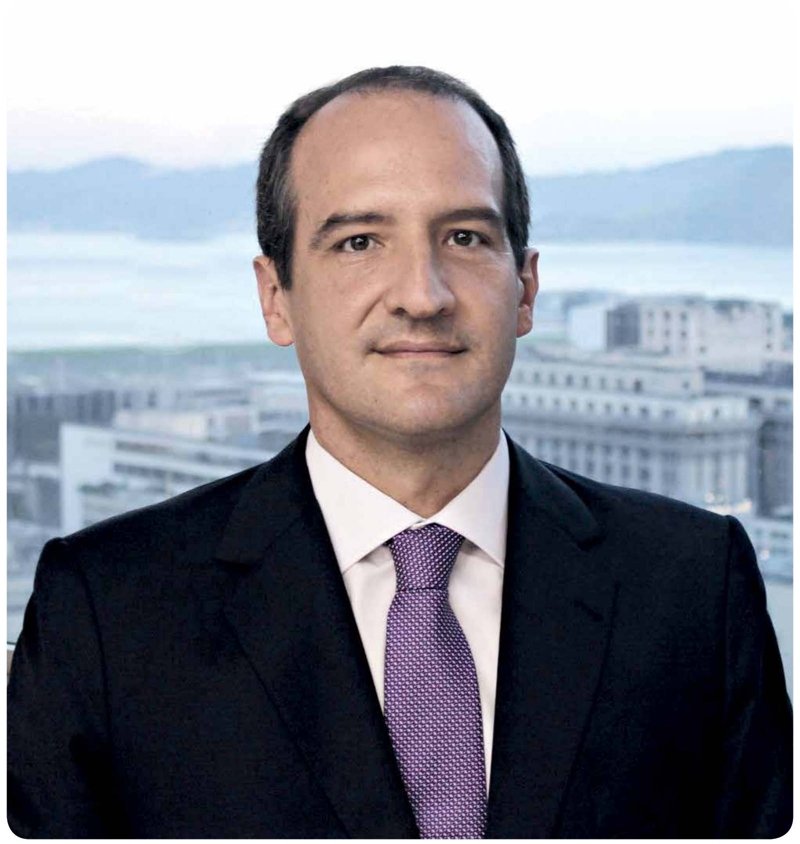
Having said that, companies that know how to push hard in the execution of a set of micro tax actions may end up gaining a very significant advantage over their local or even international competitors – as demonstrated by several Brazilian corporations (many of them well-known names worldwide) that have long employed this strategy. Furthermore, there have been many cases of Brazilian subsidiaries of international companies thriving during tough economic times in the US or Europe – to the extent that their positive performance has been important in sustaining the group as a whole. Of course, Brazil has enormous economic potential, and offers good returns in several fields, but those examples also show that the tax scenario in Brazil may not be quite as much of an obstacle to companies as is often believed.

There is also a potentially positive structural change on the horizon. As a sign of what seems to be a new compliance era in the wake of the corruption investigations that have put important politicians and businessmen behind bars, Brazil is currently adopting or incorporating into its legislation a number of OECD taxation guidelines as part of its bid to become a full member of the organisation. The results of these actions are likely to signal to investors that the country is much more in line with international standards.

Finally, although Brazil has procrastinated for decades when it comes to passing tax reforms to facilitate the life of entrepreneurs, there is now an international trend towards simplification, and within Brazil the possibility of renewed political momentum in the near future, which will exert pressure on the country to stop being the ugly duckling among its peers.

All in all, Brazil's confusing tax scenario is not only manageable but can even turn out to be highly beneficial if companies learn to navigate it well. And the changes envisaged to take place in the near future may play an important role in optimising Brazil's tax legislation, making the country more attractive to foreign investors in general.

INTERVIEW



MARCELO BARBOSA

BY IEDA GOMES
BRAZIL BUSINESS BRIEF

CHAIRMAN OF THE SECURITIES AND EXCHANGE COMMISSION OF BRAZIL (CVM)

Marcelo Barbosa has been chairman of the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários – CVM) since August 2017. He is a specialist in corporate law and securities markets, and is a professor of law at the Getúlio Vargas Foundation in Rio de Janeiro.

What is the CVM, and what are its goals?

The CVM is a federal entity with a legal mandate to foster the development of Brazil's capital markets, and to regulate and discipline them.

How does the CVM maintain its independence from the government so as to be able to make its own technical, legal and fact-based decisions?

Our independence is established in law. We're not subordinated to any governmental body, so our rule-making, supervisory and enforcement activities are exercised independently, based on our understanding of the applicable rules. Because there are other authorities whose activities also impact upon the market and savings in general, the CVM does obviously liaise with those entities, not only on a case-by-case basis but also, quite regularly, in the context of multi-authority bodies such as the Technical Committee for Currency and Credit (COMOC) and the Council for Regulation of the Capital Markets (COREMEC). So there's an effective incentive for the different authorities to discuss public policy matters, but those authorities don't have any limitations on their independent decision-making.

It's worth noting that the CVM has also enjoyed full independence when it comes to applying sanctions. There have been cases in which not only state-owned companies but the government itself has been questioned and held accountable by the CVM.

How is the securities market organised in Brazil, and what legal and regulatory improvements have there been in the last few years?

The participants in the Brazilian securities market – the stock exchange, broker dealers, investment banks, portfolio managers and others – all function under the authorisation and supervision of the CVM. Our regulatory work is based on the principle of transparency, which permeates all rules applicable to the exercise of market activities. In addition we rely on self-regulation on the part of several entities. Financial intermediaries are also subject to supervision by the Brazilian Central Bank.

How would you compare the CVM with its equivalents in the United States (the Securities and Exchange Commission – SEC) and the United Kingdom (the Financial Conduct Authority – FCA)? Does the CVM cooperate with its counterparts in other countries?

Our regulatory perimeter is broader, encompassing not only the securities markets but also futures and commodities, and we're also responsible for the supervision of independent auditing of listed companies and investment funds. In addition the CVM also supervises and sanctions corporate matters within listed companies, such as the fiduciary duties of managers and conflicts of interest. The CVM maintains bilateral agreements with several foreign regulators and is an active member of IOSCO, the International Organization of Securities Commissions.

> CVM HAS NUMEROUS ONGOING PROCEEDINGS RELATED TO INVESTIGATIONS UNDER LAVA JATO AND OTHER OPERATIONS – SEVERAL OF THEM IN COOPERATION WITH THE PUBLIC PROSECUTORS AND THE FEDERAL POLICE

In the wake of Lava Jato and similar operations we can see a number of cases in the US involving the SEC and Brazilian companies listed there. Are there any similar cases in Brazil, with foreign companies having been fined by the CVM?

There are not many non-resident issuers in Brazil. However, there have been cases in which investigations involving such issuers have led to effective sanctions. It is also worth mentioning that the CVM has numerous ongoing proceedings related to investigations under Lava Jato and other operations – several of them in cooperation with the Public Prosecutors and the Federal Police.

Viewed from outside, it seems that in Brazil there are still issues arising from misleading information given by listed companies and insufficient protection of minority shareholders. How is the CVM tackling such issues?

The CVM has been working to improve its supervisory and sanctioning activities. Recent findings indicate a reduction in the average time taken to implement enforcement actions. More recently, a new statute has been passed to strengthen enforcement proceedings, including an increase in the maximum monetary penalties

INTERVIEW

and the possibility of negotiating leniency agreements.

The trading of cryptocurrencies has become a global trend. How do you see the situation developing in Brazil, and what tools do you have in place to regulate it?

This phenomenon has been impacting upon markets across the world, and the CVM has not only been following it closely but has also taken concrete action. We issued two warnings last year describing the risks associated with investing in virtual currencies, and advising the public to carefully consider such risks. Our warning also indicated that, although no specific regulation had been issued, certain activities involving such assets might fall within our scope of supervision and enforcement. More recently we issued a stop order for an attempted ICO and have reviewed the terms of several other cases and communicated the understanding that virtual assets do not fall within the concept of financial assets for the purposes of eligibility for portfolios of investment funds. However, depending on the characteristics of the actual or potential cryptocurrency transaction, the CVM might not be the competent authority to take on the supervisory or enforcement role.

WE ISSUED TWO WARNINGS LAST YEAR DESCRIBING THE RISKS ASSOCIATED WITH INVESTING IN VIRTUAL CURRENCIES, AND ADVISING THE PUBLIC TO CAREFULLY CONSIDER SUCH RISKS. OUR WARNING ALSO INDICATED THAT, ALTHOUGH NO SPECIFIC REGULATION HAD BEEN ISSUED, CERTAIN ACTIVITIES INVOLVING SUCH ASSETS MIGHT FALL WITHIN OUR SCOPE OF SUPERVISION AND ENFORCEMENT.

In the US, the SEC quite often relies on whistleblowers when initiating its investigations. Is the same true of the CVM?

While the CVM has not decided to establish specific rules to allow for whistleblower collaboration, our investigations may rely on several different sources. We do have, for example, an established channel through which we can receive complaints and reports of wrongdoing from any member of the public.

The Bovespa index (Ibovespa) includes a significant number of state-controlled companies, and quite often the decision-making process is dictated by political rather than economic and strategic imperatives. Can the CVM develop additional controls and requirements to curb the political use of such companies?

As I said, the CVM has authority to supervise and enforce compliance with fiduciary duties on the part of directors and managers of all listed companies, including state-owned ones. It also has powers to supervise and take enforcement actions with regard to public entities acting as controlling shareholders. Recently the new statute of state-owned companies established a detailed governance regime for those companies, and the CVM is competent to monitor listed companies' compliance with such new rules. In my opinion, the rules of the Brazilian Corporations Law provide an adequate framework for this matter.

How do you recruit and develop new talent within the CVM?

Like other Brazilian regulators, we hire by means of public selection processes comprising formal examinations. New openings arise from time to time, and then a selection process is initiated. It's a strategic priority of ours to maintain adequate training and other incentives. The prospect of working at the CVM is recognised as a very attractive one by people wanting to work towards the development of the market in an environment characterised by technical excellence and independence.

What do you think are the main challenges the CVM will face in the next five years? Do they include cybersecurity?

There are several important objectives to be pursued. I would mention increasing investment in the development of our staff and in infrastructure, reducing the cost of regulatory compliance – and also continuing our financial education work, which includes projects and publications to spread accurate information about the securities market, the importance of long-term saving, and the ways in which citizens might invest their savings. And yes, cybersecurity is a concern for all regulators, and will remain an important focus of attention.

BRAZIL IS A GROWING MARKET, AND THE RECENT ECONOMIC REFORMS INDICATE THAT GROWTH WILL CONTINUE. OUR LAWS AND REGULATIONS ARE IN LINE WITH THE MOST ADVANCED PRACTICES. THE MARKET REGULATORS ARE INDEPENDENT

What message would you like to give to investors who are considering participating in the securities market in Brazil?

Brazil is a growing market, and the recent economic reforms indicate that growth will continue. Our laws and regulations are in line with the most advanced practices. The market regulators are independent. These are important positives, and experienced investors will know that it is unusual to find them in other emerging markets of the size of Brazil.

BRAZIL ECONOMIC DATA

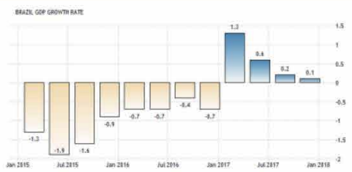
QUICK FACTS

GEOGRAPHY	5th Largest Country in the World
POPULATION	208 Million Inhabitants
ECONOMY WEIGHT	World's 9th Largest Economy
OVERALL GDP	1,796,187 million US$
FOREIGN INVESTMENT INFLOW	84.7 Billion US$
TOTAL EXPORTS	217.7 billion US$
TOTAL IMPORTS	150.7 billion US$

SOURCES: IBGE, World Bank and WTEx (2017)

BRAZILIAN ECONOMIC DATA

GDP GROWTH RATE

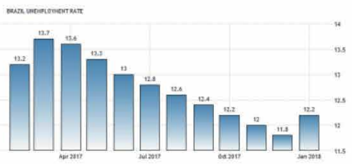


The Brazil's economic recovery was weaker than expected in the fourth quarter of 2017 due to fluctuations in agricultural exports. Looking at the full 2017, the economy advanced 1%, following a 3.5% reduction in both 2016 and 2015.

GDP GROWTH PER CAPITA PPP

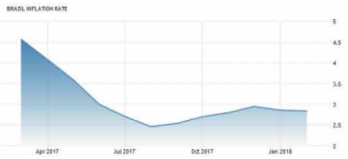
The Gross Domestic Product per capita in Brazil was last recorded at 14,023.70 US dollars in 2016. The GDP per Capita in Brazil, when adjusted by PPP is equivalent to 79% of the world's average.

UNEMPLOYMENT RATE



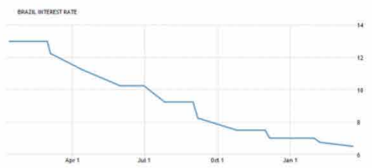
The unemployment rate in Brazil was reported at 12.2% in January 2018, the same as in the previous quarter – above expectations of 12%. This rate represents 12.7 million jobless people.

INFLATION RATE



Inflation came in at 2.84% year-on-year in February 2018, slightly below January's 2.9%. This is the lowest inflation rate registered for February since 1999.

INTEREST RATE

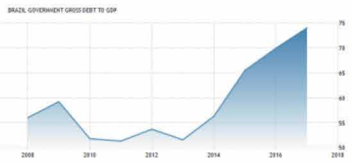


On 21st March 2018, the Central Bank cut its Selic rate by 25 basis points to 6.50%. The cut, widely anticipated, was the eleventh straight decrease, bringing borrowing costs to the lowest and gradually improving economy.

BALANCE OF TRADE

Brazil trade surplus increased to USD 4.91 billion in February of 2018 from a USD 4.56 billion a year ago. Just missing market expectations of USD 5.1 billion. Sales of a platform for oil extraction to the EU boosted exports and imports growth remained robust.

GOVERNMENT DEBT TO GDP



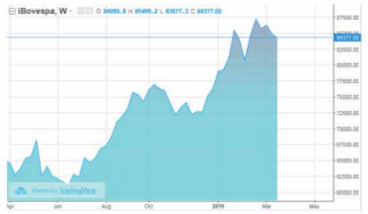
Brazil recorded a government debt equivalent to 74.04 percent of the country's Gross Domestic Product in 2017. Government Debt to GDP in Brazil averaged 58.45% from 2006 until 2017.

CURRENCY

The USDBRL increased 0.0004 or 0.01% to 3.3123 on Friday March 23 from previous trading session. Historically, the Brazilian Real reached an all-time high of 4.18 in September of 2015 and a record low of 0.01 in January of 1993.

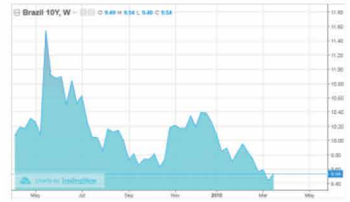
BRAZILIAN MARKET DATA

STOCK MARKET



Ibovespa increased 391 points or 0.46% to 84377 on Friday March 23. Historically, the Bovespa Index reached an all-time high of 87652.64 in February of 2018.

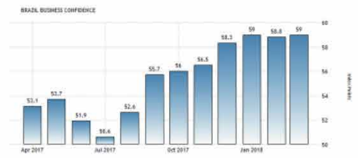
BRAZIL GOVERNMENT BOND 10Y



Brazil 10Y increased 0.08 percent or 0.08% to 9.54 on Friday March 23. Historically, the Brazil Government Bond 10Y reached an all-time high of 17.91 in October of 2008 and a record low of 9.11 in January of 2013.

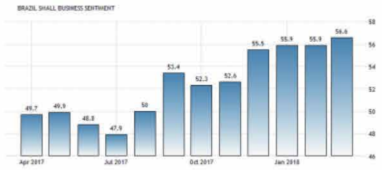
BRAZILIAN BUSINESS DATA

BUSINESS CONFIDENCE



The Industrial Entrepreneur Confidence Index in Brazil rose to 59.0 in March 2018, slightly above the previous month. General current conditions were assessed more positively, marking the highest reading since February of 2011. Also, expectations improved for the company and were stable for the economy.

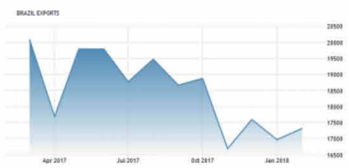
SMALL BUSINESS SENTIMENT



Small Business Sentiment in Brazil increased to 56.60 in March from 55.90 in February 2018. Small Business Sentiment in Brazil averaged 51.12 from 2010 until 2018, reaching an all-time high of 65.40 in January of 2010 and a record low of 34.50 in October of 2015.

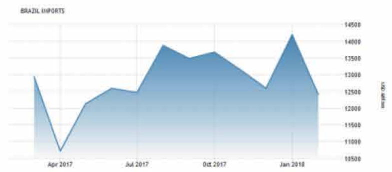
BRAZILIAN TRADE DATA

EXPORTS



Exports rose 11.9% year-on-year to USD 17.32 billion in February 2018, mainly increased by sales of platforms for oil extraction, cellulose, passenger cars, soybean meal and beef. On the other hand, declines were seen in sales of more traditional products such as crude oil, iron, soy beans, chicken meat and coffee.

IMPORTS



Imports to Brazil increased 13.7% year-on-year to USD 12.41 billion in February of 2017. Purchases rose for capital goods, consumption goods, intermediate goods and fuels and lubricants. The EU was the main import partner, followed by China and the US.

SOURCE: WWW.TRADINGECONOMICS.COM | MINISTÉRIO DO DESENVOLVIMENTO, INDÚSTRIA E COMÉRCIO EXTERIOR

EDITORIAL

BRAZIL BUSINESS BRIEF, MAY 2018

NEWS FROM THE
BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN

EDITORS
LENA BERALDO & ALEX THOMAS

EDITORIAL COUNCIL
IEDA GOMES & ANTHONY PEREIRA

GRAPHIC DESIGN
NENI ALMEIDA · NENIALMEIDA.COM

PROOFREADING
MICHAEL MARSDEN · MICHAELMARSDEN.CO.UK

OUR GUEST WRITERS AND COLLABORATORS IN THIS EDITION

IEDA GOMES

Ieda Gomes is a councillor at the Brazilian Chamber. She is the managing director of Energix Strategy Ltd, an energy and gas consultancy company. Ieda is also a senior advisor at FGV Energia and visiting fellow at the Oxford Institute for Energy Studies.

ieda.gomes2@gmail.com

DR SONIA GONÇALVES

Sonia has been a lecturer in the Brazil Institute at King's College London since 2014. She has a PhD in economics from the London School of Economics. Her main research interests are in the fields of development economics and political economy.

sonia.goncalves@kcl.ac.uk

KAREN ELLISON

Karen is a counsel in the Energy and Natural Resources Group at Reed Smith LLP's London office. Acting on matters involving a broad spectrum of commodities, her responsibilities include transactional work, litigation and international arbitrations.

kellison@reedsmith.com

ANDRE LAWSON

André Lawson has an MSc in electrical engineering from the Pontifical Catholic University of Rio de Janeiro (PUC · Rio). His field of research involves optimisation and stochastic programming, particularly applied to the Brazilian national power system.

andre.sampaio@fgv.br

GUILHERME PEREIRA

Guilherme Pereira has a PhD in electrical engineering from PUC-Rio and was a visiting researcher at the Technical University of Munich, Germany. His research interests involve mathematical and statistical modelling applied to the energy sector.

guilherme.pereira@fgv.br

ALEXANDRE GLERIA

Alexandre is a lead partner of the tax practice at ASBZ Advogados in Brazil. He has a Master's in Law from UC Berkeley and is also a tax professor and writer for magazines and newspapers.

alexandregleria@asbz.com.br

RENATA AMARANTE BARDELLA

Renata is a senior tax lawyer at ASBZ Advogados, with more than 12 years' experience in tax and customs. She has a postgraduate degree in tax law and also works for other local and multinational companies in diverse areas.

renatabardella@asbz.com.br

CHRIS MAYO, CFA, HEAD OF PRIMARY MARKETS - AMERICAS, LONDON STOCK EXCHANGE GROUP

Chris provides guidance to companies and their shareholders on financing strategy. He helps companies access high-quality institutional capital in London's public markets. He has 20 years of corporate finance experience in New York and London for Barclays, Salomon Smith Barney, Citi and Schroders.

cmayo@lseg.com

MARIANA WEISS

Mariana Weiss is a PhD candidate in energy planning at the Federal University of Rio de Janeiro (UFRJ). Her research includes energy consumption patterns, energy efficiency, distributed generation, renewable sources and energy tariff regulation.

mariana.abreu@fgv.br

LORENA ZANESCO

Lorena Zanesco worked in the London office of B3, the Brazilian Stock Exchange. She was responsible for European, Middle Eastern and African clients and business development, and for advising major financial institutions about the Brazilian markets.

JACK SHEPHERD

Jack is a corporate partner at CMS, specialising in equity capital markets and M&A. He advises corporate clients and investment banks, working with a diverse range of businesses across different sectors, with a particular focus on real estate and technology companies.

Jack.Shepherd@cms-cmno.com

THE BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN
PRESENTS THE

GALA DINNER
PERSONALITY OF THE YEAR AWARDS 2018

7 NOVEMBER 2018

INTERCONTINENTAL
LONDON PARK LANE
7.00PM

BRAZILIANCHAMBER.ORG.UK

Brazilian Chamber
of Commerce in Great Britain