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GOVERNMENT WAIVES GOOD MEASURES TO THE SECTOR

The federal government signaled that it will satisfy the demands of the pulp and paper industry regarding tax matters, within the same framework used in the automotive industry, starting 2013. This piece of good news, in spite of lacking details, provides new impetus to Brazil's pulp and paper industry, which has been losing its competitiveness particularly in the international market.

The sector's export revenues from January to July amounted to US\$3.9 billion, compared to US\$4.1 billion last year, representing a 6% drop. In terms of volume, pulp grew 2% and paper dropped 4.4% in comparison to 2011.

We have discussed this before and once again stress that Brazilian products would become much more competitive, particularly in the international market, if pulp were included in the Special Regime of Reinstatement of Tax Amounts for Exporting Companies (REINTEGRA), which foresees reinstating amounts referent to residual tax costs that exist in production chains, limited to 3% of the amount exported, as well as payroll exemption, which substitutes the charging of 20% over the payroll in exchange for paying 1% of revenues in the domestic market.

These are the main demands defended by the sector to the federal government, whose financial authorities have already given a positive technical opinion to both requests. According to information from the government, payroll exemption will come in the form of Provisional Measure (MP), which we expect will be submitted to Congress yet in September. This Provisional Measure shall include other productive sectors in said benefit too.

It is important to point out that government measures that aim to protect the competitiveness of Brazil's industry and market are of utmost importance, particularly when faced with a global economic crisis

that pressures revenues of Brazilian companies and, consequently, affects GDP growth.

Even though Brazil has been able to maintain its balance as best as possible, the international scenario continues uncertain: the European market continues weak, the United States still has high levels of unemployment, and business movement in China has varied considerably. Therefore, recovering foreign trade revenues this semester remains a major challenge.

However, more important than addressing immediate effects, federal incentives will come as a positive sign including for those actions foreseen prior to the crisis, such as the 8-year expansion plan for the sector, announced in 2011, with investments amounting to US\$20 billion, which was beginning to lose stamina. Resuming these investments will certainly become more plausible with the payroll exemption and REINTEGRA regime.

Regardless of incentives, Brazil's industry has been making heavy investments for many years in technology, research and installations. A modern industrial park has provided the sector an important position in the global market, both in pulp and in paper. To produce more at a lower cost and fostering sustainability throughout the entire production chain has been the objective of companies.

Maintaining this leading position in terms of best practices in the global scenario, lending prestige to Brazil, is another challenge for the industry. Therefore, protection measures to wave this turbulent period should be adopted quickly, so that, in the end, the market does not become disorganized. Partnering with the government is undeniably beneficial and necessary for both sides: the industry wins, the market wins and, consequently, the country wins. The important thing is for the sector to be prepared so that, at the right moment, it puts into practice the plans it has defined and grows. ■

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