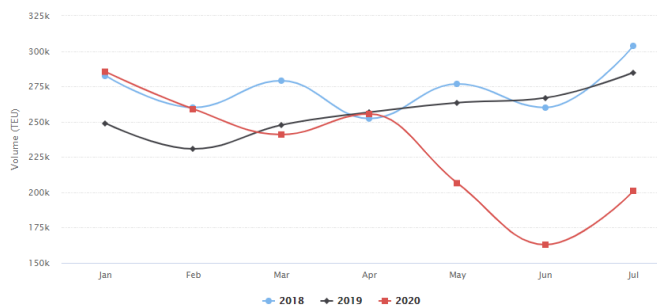


Main news

July data from DataLiner, which will be released today, shows that imports into the East Coast of South America rallied when compared to the previous months. They are still severely down compared to the last two years but have recovered in line with expected seasonal volumes. Exports in the meantime have surged further, going from strength to strength.

The chart below shows cargo imports from the East Coast of South America for the first seven months of 2020 compared with the same period in 2018 and 2019:

Imports into the East Coast of South America | Jan to July 2018-2020 (TEU)



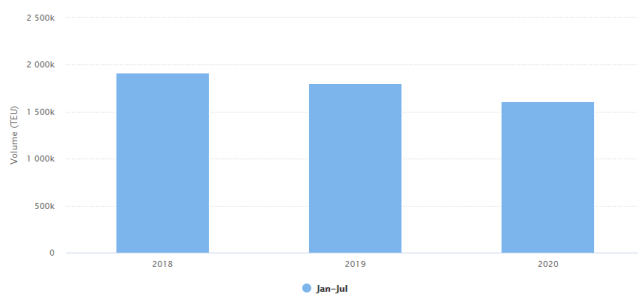
Source: DataLiner

In the graph, it is possible to see that until February 2020, imports maintained a good level, outpacing the same months in 2019. As of April, however, when the impact of the quarantine due to the pandemic began to be felt in earnest, they plummeted, reaching the lowest level in June. A recovery has been seen in July, with imports growing 23.3% in relation to the previous month. Even so, the volume is 29.5% lower than in July 2019.

Economic Analysis - 2020 GDP forecasts for Brazil have continued to improve in the meantime. Currently, the forecast is for a recession of 5.28%. Back in July, the forecast stood at a 6.5% recession.

The graph below shows the cumulative result for Brazilian imports in the first seven months of 2020 compared to the same period in 2019 and 2018.

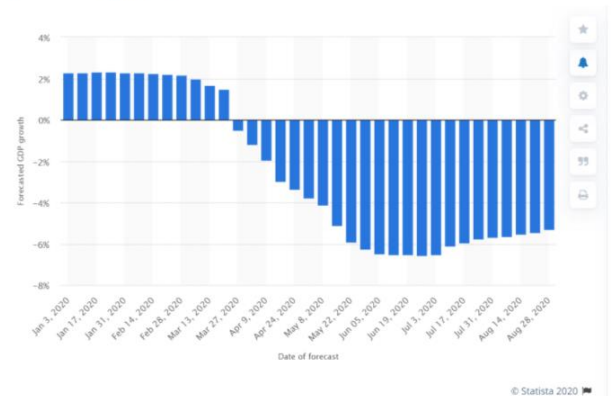
Imports into the East Coast of South America | Jan to July 2018-2020 (TEU)



Source: DataLiner

The cumulative total in the above graph for January to July 2020, shows a 10.46% fall in imports compared with the same period in 2019 and 15.83% in relation to 2018 in TEU.

2020 Forecast GDP Growth for Brazil



Source: Statista

Commodities Analysis - Many of the most affected imports into the East Coast of South America's saw numbers bounce back in July after what appears to have been the low point in June, as can be seen in the table below. August numbers are also expected to rise following a very limited number of blank sailings during that month according to Datamar databases.

Ranking of the most imported goods in July 2020

Commodity	Jan	Feb	Mar	Apr	May	Jun	Jul	May-Jun Change	Jun-Jul Change
39 - Plastics and Articles Thereof	33,498	30,426	31,184	33,573	26,626	20,570	23,317	-6,055	2,747
84 - Nuclear Reactors and Mechanical Appliances	31,800	26,172	22,624	26,952	23,180	17,771	22,048	-5,408	4,276
85 - Electrical Machinery and Equipment and Parts Thereof	24,008	22,829	17,782	20,253	16,532	10,963	15,476	-5,569	4,513
29 - Organic Chemicals	12,761	11,602	11,119	14,307	13,158	11,666	13,021	-1,492	1,355
87 - Vehicles Other Than Railway or Tramway Rolling-Stock	29,297	23,870	27,321	27,581	14,634	9,763	11,493	-4,870	1,730
38 - Miscellaneous Chemical Products	6,762	5,983	5,702	5,988	6,989	7,187	8,400	198	1,213
40 - Rubber and Articles Thereof	10,865	10,098	9,594	9,714	7,626	4,250	6,690	-3,375	2,439
31 - Fertilisers	5,034	4,931	4,235	6,772	6,666	6,813	6,045	147	-769
28 - Inorganic Chemicals	5,795	5,537	5,086	6,296	5,598	5,342	5,116	-256	-226
48 - Paper and Paperboard	7,075	6,704	6,249	7,014	5,980	4,443	4,503	-1,537	60

Source: DataLiner
(To request a DataLiner demo click here)

Ports, terminals and infrastructure

Eldorado Brasil Celulose and Bracell SP Celulose were the winners of the auction of the STS 14 and STS 14A terminals in the Port of Santos, held this Friday, August 28, at B3, in São Paulo. Eldorado won the STS 14 for R\$250 million and Bracell took the STS 14A for R\$255 million.

"Between grants and investments, almost R\$900 million will be received by the port in the next few years, generating jobs and income for the region," said SPA president, Fernando Biral. "Santos will recover the pulp that is no longer flowing today, attracting high-level companies from this chain, one of which is a new entrant in the port", he added, referring to Bracell, which still does not have a terminal on the Santos pier.

In addition to Eldorado and Bracell, the company Maxcel Empreendimentos e Participações (of the Suzano group) also submitted a proposal, for R\$1,000 each. For the STS 14 area, the largest initial offer was R\$100 million. After 27 bids in the hands-free auction, Eldorado made the largest offer, worth R\$250 million.

The same participants competed for the STS 14A area, with the highest initial value being R\$180 million, with the auction reaching, after 10 bids, the value of R\$260 million. Eldorado also offered the best proposal, but, as the rules did not allow the same bidder to keep both terminals, the company gave up the second area. Thus, Bracell was declared the winner of the auction for STS 14A.

These are the first leases of areas in the Port of Santos since 2010 in which the grants will go to the Port Authority coffers, which will provide capacity for reinvestment in the port itself. In the last bidding processes (held in 2015 and 2019), the funds went to the Treasury.

The terminals will pay two lease values to the SPA over the 25-year contract period – a fixed and a variable cost. In STS 14, it will be R\$199,512.51 per month and R\$1.72 per tonne handled. In STS 14A, it will be R\$170,238.20 and R\$1.46, respectively. Thus, SPA alone will receive R\$110.9 million as a fixed lease.

STS 14, with 44,550 m², can handle approximately 2.5 million tonnes/year, with an investment of R\$186.9 million. STS 14A, with 45,177 m², will have the same capacity and an investment of R\$193 million.

In both cases, the minimum investments involve warehouse construction works, acquisitions of sets of overhead cranes with coverage for the railway reception area and equipment for loading and transportation, as well as the removal of the remaining equipment in the areas.

Located in Macuco, in the Port of Santos, the terminals will be used for handling general cargo, especially cellulose. These areas were previously occupied by Libra Terminals.

Auctioned areas - The auctions consolidate a new logic for optimizing the use of areas in the Port of Santos. In this way, cargo handling will take place in a more sectorized and effective way, in accordance with the port's new Zoning and Development Plan (PDZ). With the next rail accesses to be built in Santos, which will allow integration with the Rumo Malha Paulista and the Ferrovia Norte-Sul lines, the transport of pulp, as well as other cargo, will be based on multimodality.

It is worth noting that Brazil is one of the largest pulp producers in the world, and this is the product with the highest annual growth rate in the Port of Santos. After investments in the terminals, the handling of this type of cargo should jump to 5 million tonnes per year.

Check the following graphs for the movement of pulp through the Port of Santos and the participation of each terminal in the cargo operation:

Handling of Pulp at the Port of Santos (HS 3912) | Jan 2017 to Jun 2020 | TEU

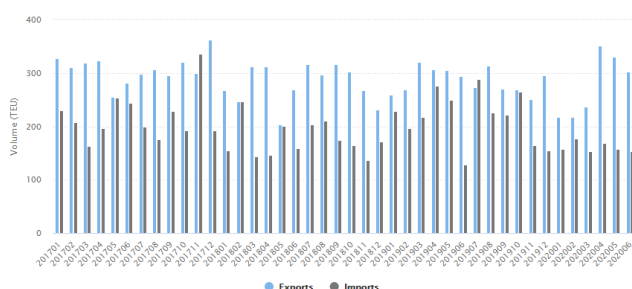


Chart source: DataLiner

Handling of Pulp (HS 3912) at the Port of Santos by Terminal | Jul 2019 to Jun 2020 (last 12 months) | TEU

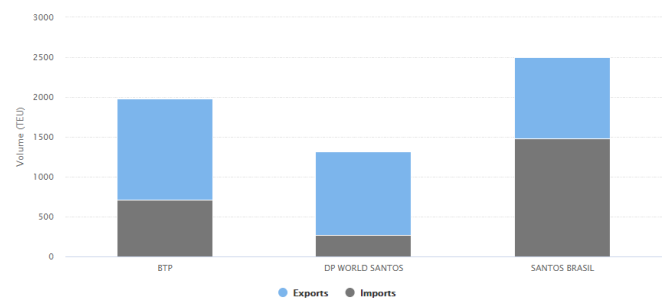


Chart source: DataLiner

Paraná Ports renewed the contract for handling vegetable bulk by PASA – Paraná Operations Port, at the Port of Paranaguá. This is the first addendum entered into by the Paraná port authority, since the public company was granted autonomy to administer development contracts in August 2019. As a result, Paraná is the first state in Brazil to act as a granting authority, after 2013, when Federal Law 12,815 centralized port development with the Federal Government.

The 001/2019 delegation of competence agreement was formalized after an extensive process of analysis and validation.

ADDITIVE: The additive term published on Friday (August 28) has the National Waterway Transport Agency (ANTAQ) as an intervening body. The contract is valid until 2049.

PASA's investments total R\$117.7 million in two phases. According to the company's director, Persio Souza de Assis, the handling capacity is expected to rise from the current 3.6 million tonnes/year to 6.7 million tonnes/year.

"The improvements adopted have outpaced the growth in movement in recent years. With the renewal of the contract, PASA reinforces its commitment to the growth of the country's exports and the increase in the volume handled at the port of Paranaguá", he highlights. According to him, the intention is also to leverage business, with a focus on the railway network that today already absorbs 90% of the company's logistics.

By 2022, PASA should build a new shipping line, with the installation of a new ship loader, to handle up to 2.5 thousand tonnes/hour. In addition, by 2023, a new warehouse will be built, for 60,000 tonnes of sugar or 45,000 tonnes of other solid bulk.

On August 26, VLI, the logistics operator, informed that it started using a new route to transport pig iron, joining the company's railway operation to the shipment sector of the port of Tubarão, in Vitória (ES).

The new route alternative provides for cargo to be captured at railway terminals in the interior of Minas Gerais and transported by rail to the Espírito Santo port complex. Two shipments have been made so far, totaling 100,000 tonnes of pig iron, which were destined for China.

In a note, the company's general commercial manager, Asley Ribeiro, said that VLI's goal is to expand its market share in product exports to at least 50%, compared to 30% currently. VLI also pointed out that Kéntron, a large pig iron seller, is among the companies that the route will serve. In the same statement,

Kéntron's export manager, Breno Faria, said he saw the route as "relevant", adding that it "generates economies of scale".

The Organized Port of Ilhéus handled 256,358 tonnes in the first seven months of 2020. The amount represents 247.74% growth over the same period last year, when 73,722 tonnes were handled.

Regarding the types of cargo handled at the Port of Ilhéus, there was an increase of 846.42% in the handling of solid bulk (soybeans, manganese, and nickel among others), reaching 160,362 tonnes, and a 69.07% increase in general cargo, especially due to 95,996 tonnes of wood exported to Portugal.

The Santos Port Authority (SPA) recorded net revenue of R\$261.1 million in the second quarter, up 12.2% year-on-year, driven by the strong movement of cargo in the April-June period when Santos handled 38.8 million tonnes – a 17.2% rise on year-ago levels. This mainly reflects strong agribusiness exports and the exchange rate that is favorable for exports.

Moreover, actions focused on rationalizing costs and increasing revenue, in search of consistent gains to improve economic and financial sustainability, resulted in a gross profit of R\$179.7 million, an increase of 24.1% over the same period last year, with a 6.6% increase in gross margins to 68.8%.

The cash generation capacity, measured by earnings before interest, taxes, depreciation, and amortization (Ebitda), also increased significantly. Adjusted for extraordinary effects, the Ebitda grew 18.4% and reached R\$118.1 million, with a 45.2% margin – an increase of 2.4%.

The good performance in revenue combined with efficiency gains and cost reductions led SPA to record net income of R\$43.7 million in the quarter, almost 5 times the R\$8.8 million registered in the second quarter of 2019. In the semester, SPA also obtained a positive result in the last line of the balance sheet. Net income for the year to June reached R\$80.3 million, an increase of 26.4% over January-June 2019.

Details on revenue and performance - Cargo handling: In general terms, the good performance of the second quarter reflected the improvement in export volumes via Santos, compensating for the reduction in the surplus observed due to lower imports (mainly in containers). The highlight for the period was the growth of almost 37% in solid bulk, driven especially by greater volume shipments of soy and sugar. Meanwhile, general cargo/containers, more directly related to the imports, showed a decrease of 6.5% in the period.

Number of vessels and use of berths: A total of 1,335 vessels operated during the second quarter – an increase of 5.5% over the volume of ships in the second quarter last year. The rate of use of berths increased from 53.6% in second-quarter 2019, to 56.4% this year.

Equity income: Equity income grew by 6.6% in the 2nd quarter of 2020. The main highlight was the 19.1% increase in charges linked to cargo handling. The portion of equity income linked to rent, charged per square meter, increased by 2.8% in the period and was the result of the contractual adjustment based on the IGPM (7.31% in the last 12 months) and the signing of 3 new

transitional contracts in the Saboó region, which offset the effect of some contracts terminated during 2019.

Tariff revenues: Tariff revenues grew by 16% in the 2nd quarter of 2020 compared to the same period in 2019. In the analysis by type of tariff revenue, the positive highlight was the increase in cargo handling (+25.7 %) and mooring periods (+ 17.0%). On the other hand, land infrastructure tariffs maintained the trend observed in the first quarter, decreasing by 9% as a result of the greater movement in the period and in the rental of berths at terminals, which pay lower tariffs for not using terrestrial infrastructure resources. It is also worth mentioning that there was no tariff adjustment in the period under analysis.

The recovery process for the Belgrano Cargas train in Argentina took another positive step on August 22: a formation of 10 wagons loaded with corn entered the agro-export terminals located in Timbúes, in the Santa Fé region. It was the first time that the train entered the Gran Rosario ports. Circulation and discharge tests were carried out. According to the Argentine Ministry of Transport, this development "will reduce logistics costs and triple the cargo transported to the ports of Gran Rosario".

The formation, with 10 wagons, travelled along the new section by means of a new railway bridge that crosses the Carcarañá river and a railway area for the maneuvering and maintenance of trains of up to 100 wagons. The construction of private diversions with dynamic unloading for each port terminal was also contemplated to streamline logistical times. Soon there will be definitive authorization to operate with the different cargo formations.

The work will allow for transportation of a greater volume, with savings of up to 30% in logistics costs, according to the company Trenes Argentinos Cargas, responsible for the operation of the Belgrano line.

On August 25, the Federal Police conducted simulated exercises to attest to the effectiveness of the Port Security Plan at the ports of Santos, Paranaguá, and Itajaí. During the exercises, federal police officers simulated access to ports without the necessary identification elements to verify compliance with the security protocols by terminal employees. Port security in cases of unauthorized vessels entering terminals, as well as drugs being transported in containers, were scenarios that were also tested.

The Federal Police, which holds the presidency of the National Commission for Public Security in Ports, Terminals, and Waterways (Conportos) at the federal level and Cesportos (state level), stated that they have directed their efforts towards the construction of adequate security protocols for national port complexes and compliance with the International Code for the Protection of Ships and Port Facilities (ISPS Code).

The Code, made legal by Decree No. 9,988, of August 26, 2019, requires continuous and effective cooperation and understanding between public and private entities operating in the maritime and port universe, to detect threats to protection and take preventive measures against security incidents affecting ships or port facilities used in international trade, through the acquisition of knowledge and skills.

On August 18th, Infrastructure Minister Tarcísio Gomes de Freitas, approved the new area of jurisdiction of the Rio Grande Port Authority. According to Ordinance No. 121, of August 18, 2020, published in the Official Gazette No. 159 of August 19, 2020, the Ministry determined that the area in question, which lies within the municipalities of Rio Grande and São José do Norte, both in Rio Grande do Sul, will be defined by the polygons, the coordinates of which are detailed in Annexes 1 and 2 of that Ordinance.

The organized port area comprises port facilities and infrastructure for protection and access to the port, a public asset built and equipped to meet the needs of navigation, passenger movement as well as the movement and storage of goods where the traffic and port operations involved are under the jurisdiction of the port authority.

In line with Law 12,915 / 2013, and after several discussions and surveys carried out over time in this process that began in 2015, the new definition of the area excludes, among other areas, the Private Use Terminals (TUPs), historic and consolidated urban occupations, the central urban area of the Municipality of Rio Grande, and on its eastern land border, the land located in the Municipality of São José do Norte. The new jurisdiction is also expanded to include the part of the access channel dredged in the open sea, beyond the limits of the jetties, and also includes the pilotage waiting area.

Shipping

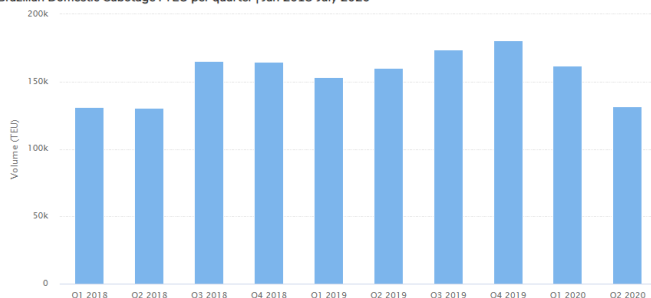
Rapid expansion of the Brazilian coastal trades has led to a pending shortage of carrying capacity. Brazilian domestic cabotage reached 667,849 TEU in 2019, up 13% from 591,921 TEU in 2018, according to ABAC, the Association of Brazilian Cabotage Operators. The BR do Mar bill of law, which is the legislation put before Congress over the last few days, may be the solution to free up urgently needed extra capacity.

The backdrop for Brazil's coastal shipping

Brazil's domestic cabotage trade has been among the most consistently fast-growing containerized trade in the world for more than a decade, averaging more than 10% growth per year, and at times hitting 25% for specific quarters. The overall market now totals almost 700,000 TEU per year, not including feeder and Mercosul cargoes. The latter, also known as international cabotage, along with feedering.

Brazilian Domestic Cabotage I TEU per quarter | Jan 2018-July 2020

Brazilian Domestic Cabotage I TEU per quarter | Jan 2018-July 2020



Source: ABAC

Also, since the hugely damaging truckers strike in Brazil – which paralyzed the country for more than 11 days back in May 2018 – the trend away from road transport and towards cabotage has increased further still. This has added significant pressure on the existing capacity of the three players in the market to deliver regular, reliable, and decently priced services for shippers throughout the country.

Owing to strict flag requirements under Brazilian maritime law – guaranteeing coastal movements to Brazilian flag vessels crewed by Brazilians along the lines of the Jones Act in the US – Aliança Navegação e Logística (operated by the Maersk and Hamburg Sud group), Mercosul Line (owned by CMA CGM) and Log-In Logística Ltda have all had to initially build up a fleet of vessels in Brazilian shipyards, or pay heavy import taxes on foreign-built ships and then re-flag them onto the Brazilian Special Register (Registro Especial Brasileiro, or REB). Today Aliança holds between 52-57% of the market with the rest split between its two rivals, who work very closely together in a series of joint services.

Building at expensive Brazilian shipyards became increasingly difficult after 2014 with the 'Operation 'Car Wash' police inquiries – involving corruption at the highest levels of Petrobras and Brasília – gaining momentum and spreading rapidly into the shipyard sector. This led, eventually, to the closure of several shipyards, including Estaleiro Atlantico Sul, which had signed a Memorandum of Understanding (MOU), back in 2017, to build two 5,000 TEU vessels. The Maersk Group is now looking again at Chinese yards, namely Shanghai Shipyard Company, where it successfully built (and then imported at huge cost) two 4,828 TEU vessels back in 2015: the Vincente Pinzon and Bartolomeu Dias, still the largest vessels deployed in ECSA cabotage and coastal trades.

Since building new ships in Brazil is no longer a viable option, the three carriers have each had to stretch their ingenuity to find ways to increase capacity and stay the right side of the regulations, especially regarding bareboat chartering and the REB. As long as they had several Brazilian flag vessels operating – or even under construction – they were allowed to charter in foreign vessels.

Currently, REB rules allow Brazilian Shipping companies to bareboat charter (BBC) and register foreign vessels under the Brazilian Flag. The limit is 50% of the company's owned Deadweight tonnage (DWT), added to twice the DWT under construction at a Brazilian yard.

An exception is applied when the company owns a single Brazilian vessel. In this case, it can register a foreign vessel under the bareboat charter as REB up to their Brazilian vessel's DWT. This has led some companies, such as Log-In Logística, to split into multiple units in order to increase their REB registration capacity. They did this with the recent addition of the Log-In Endurance to their fleet (see below).

Why the need for change? - "For many years there was often a fair amount of spare capacity available under that system but it has nearly all been used up now," said Armando Freigedo Rodrigues, a director with the Rio de Janeiro based Aquapar consultancy, which has been advising companies on cabotage regulations for more than two decades.

"There is still some wriggle room for chartering in more foreign tonnage but not much. Cabotage has been growing like that [more

than 10% every year] for about 10 years now, especially since 2018. BR do Mar could open up the coast to much more competition."

Newcomers into Brazilian cabotage will be encouraged – via BR do Mar – to go for new routes and to find markets that don't currently exist.

Armando Freigedo told DatamarNews: "there are some possible shipments, from the South to the North of Brazil that today are too expensive but if you do a simple Time Charter it becomes feasible. This is one idea, that BR Do mar will be better able to develop new business in cabotage and discover new routes that do not exist today; as well as improving the Container Transportation that already exists."

The veteran consultant, who used to work for the Brazilian Department of Merchant Marine (DMM), puts the continuing rise of cabotage down to two things: The continuing growth of commerce in Brazil and cargoes migrating from road transport to sea transport.

"The truckers strike in May 2018 was a tremendous boost to the cabotage operators as shippers in Brazil discovered that they could send their cargo by sea in a very efficient way and change their traditional way of doing things," added Rodrigues.

"At the same time, since then the container lines have been improving their logistics operations and have turned themselves into multi-modal operators, adding lots of short distance trucking operations to their portfolios."

Indeed, they have. During the 2018 truckers' strike Aliança beefed up their trucking operations in Manaus with an extra 50 trucks so that they were not so dependent on the 1 million-plus freelance truckers who had led the strike actions, and Aliança – which also handles inland trucking operations for Maersk and Hamburg Sud – has also invested in an inland logistics terminal in São Bernardo do Campo (part of the ABC industrial region located between Santos and São Paulo, heavy in auto manufacturers including Ford, Mercedes Benz, Toyota, Volkswagen, and Scania). The extra trucks now serve shippers in the state of Sao Paulo, with regular trips to Campinas, the second-largest city.

Freigedo Rodrigues says that "having the right inland infrastructure is key to winning over any reluctant shippers from trucks" on a more permanent basis, and Aliança seems to be following that.

Mark Juzwiak, the head of institutional affairs for Aliança Navegação and a Hamburg Sud executive, concurs with Rodrigues and said that in the aftermath of the Truckers' strike there were many opportunities to convince shippers to "give cabotage a chance". Many did and liked what they experienced.

By the end of 2018, despite losing nearly two weeks of business due to the shutdown, coastal carryings were up by 12%, and the boost in June and July of that year was over 20%.

"I think everyone woke up to the Cabotage option back in mid-2018," explained Juzwiak, who has been heavily involved with the Association of Brazilian Cabotage Operators (ABAC), along with his contemporaries from Mercosul Line and Log-In, in lobbying Brasilia for new legislation such as BR do Mar. 'Let's give it a try',

said many of our shippers and it's worked out pretty well for them since then," he added.

The figures just keep rising, despite a small hiatus due to the coronavirus pandemic. And that means that with further continuous 10% annual increases expected to resume again next year, much more capacity is now required.

The successful growth of cabotage and feeder volumes over more than a decade, means that capacity problems have only been averted this year because the COVID pandemic – and its effects both in Brazil and its trading partners, especially China – has slammed the brakes on the 10% plus growth prospects. ABAC figures show a fall of 7%, to 293,000 TEU for the first six months of 2020, compared to the same period of 2019.

What is being done about it? By the second to third quarters of next year, the coastal operators are expecting a full recovery of the Brazilian economy after the ravages of COVID. This will take them back towards full capacity and more vessels will be required – probably in the 2,500 to 5,000 TEU range – so the Minister of Infrastructure, Tarcisio Gomes de Freitas, will be stepping up his radical plan, called BR do Mar, to open up the 7,400 km long Brazilian coastline to long-term charters flying foreign flags, but with provisions for two thirds Brazilian crew.

Ever since the BR do Mar plan originated – during early 2019 – there has been stiff opposition to it, from maritime unions and shipbuilding interests, but over the past few weeks, the initiative to bolster cabotage capacity and possibly bring in new players has made significant progress.

BR do Mar is the brainchild of Tarcisio Gomes and has the backing of President Jair Bolsonaro although it is now no longer as strong as it was, owing to the expected opposition – from Sinaval and Sindmar and the powerful trucking lobbies – that might affect his core voting base. Various analysts say this is the reason why the BR do Mar was not brought in as a Provisional Measure, which would have had immediate legal effect. By dragging the process through Congress, many groups and political groupings can have their say and, therefore if it is not well accepted, Bolsonaro will take less of the blame, so the argument goes.

But the optimists say that after two readings in Congress it could become law by Christmas.

Luis Resano, the executive director of ABAC is one of the optimists. He says, "this is a good scheme to incentivize the cabotage sector and the aim of the program is to increase the capacity for carrying freight in the container sector by 40% over the next five years," Resano told DatamarNews. "It's a very aggressive program and if all goes well it could be law by Christmas."

However, he added that ABAC members were still "paying more for bunker fuels" and this will not change with BR do Mar as it is.

Political Process - If the original concepts are not watered down too much by Brazilian Congress, the BR do Mar legislation should open up the long Brazilian coastline – some 7,400 km – to foreign flag vessels on Time Charters for the first time, and new companies, such as MSC, Hapag Lloyd and Posidonia could provide new competition for the three existing players.

One experienced shipping consultant, who preferred not to be named, said that although existing cabotage players could gain by increasing their fleets, there was a danger for them if brand new players – such as MSC or Hapag Lloyd – entered the fray and took away some of their business.

“I see BR do Mar as a very good thing for Brazil, especially for newcomers but I am not so optimistic it will be resolved by Christmas as there is a lot of politics involved, and the unions are also starting to flex their muscles,” said the São Paulo based consultant. “Shipyard association Sinaval are a powerful lobby and they want to stop BR do Mar. They want government subsidies for shipbuilding in Brazil, but there is no desire for that at the moment, so it won’t happen anymore like it did under Lula and Dilma [Rousseff].

“Alongside the big players, such as MSC, who have wanted a slice of the action for a long time, especially vis a vis feedering, there are also small outfits such as Posidonia who have been trying to enter these trades in recent years.

“Small outfits might get a foot in the door but may not have the infrastructure to offer sufficiently reliable services so that could be a problem further down the road.”

Some possible pitfalls - The old adage: “Be careful what you wish for”, is also applicable with BR do Mar. The “flexibilization” involved with opening up foreign-flagged time charters could lead to some unwanted consequences.

Juzwiak of Aliança told DatamarNews: “BR do Mar is an opening for us to reduce the bureaucracy by having your own ships but at the same time getting ships on bareboat charter is not that easy, as shipowners will not just give their ships away to anybody who comes along with an offer.

“I think some in the market are under-estimating the complexities of bareboat chartering. At ABAC we are also trying to limit the age of vessels because we don’t want rust buckets floating around.”

Several other senior executives also warned against the appearance of inexperienced, ill-prepared entrants into the market, “operating rust buckets” which will “drag down the reputations of all cabotage and coastal operators”.

“The decision-makers in Brasilia, when making up the final legislation for BR do Mar should remember the case of Maestra a few years back,” said one veteran shipping director.

Around six years ago there was a fourth player in the Brazilian market, Maestra Navegação, but they had old, decrepit vessels – such as the Neptunia Mediterraneo, which ended up arrested in Ushuaia, Argentina – and had just one fortnightly service.

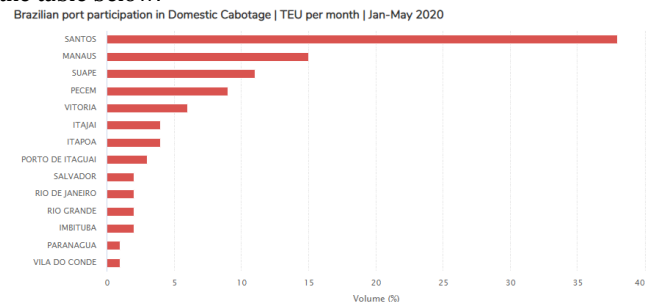
“They did everything wrong and it was never going to work,” said the São Paulo based consultant. “Shippers will gain from new and qualified competition but not from substandard sources. I think the market here in Brazil can take one or two new entrants, but they have to be competent players.”

Concluding thoughts

According to Luiza Bublitz, CEO of Mercosul Line, “balancing the Brazilian transport matrix is crucial to improve business competitiveness”. She said, “The BR do Mar is a game-changer for cabotage. It will enable customers to access broader coverage

with extra capacity, and will also allow a more efficient logistic chain with cost reductions helping customers to reach new markets. The stability and reliability of cabotage needs to be maintained nonetheless, through long-term commitment, investments and dedicated operations in Brazil.

Several ports will gain from the anticipated boost to cabotage, notably Santos (currently with 38% market share), Manaus (15%), Itaguaí, Suape, Pecém, Itajaí, Vitoria and Itapoá. These eight ports handled 90% of all Brazil’s cabotage during the first five months of 2020 according to data from Datamar, as shown in the table below:



Statistics of TEU handled are sometimes a moot point among coastal operators in Brazil, with players sometimes trying to keep data close to their chests. Log-In Logistica is quoted on the Bovespa (São Paulo stock exchange) and therefore has to release figures every quarter but since the start of 2019, it has stopped giving out breakdowns of coastal carryings into its constituent parts: cabotage, feeder and Mercosul shipments.

Like its rivals, Log-In has seen a small retraction in throughput during the first half of this year, with overall coastal shipping (cabotage, feeder, and Mercosul) seeing 170,500 TEU handled, down 2.8% compared to 175,000 TEU handled during the same period of 2019. The effects of COVID were more pronounced during the 2nd quarter of this year which showed an 8.4% fall, from 91,500 TEU for April to the end of June 2019 down to 83,800 TEU for the same 3 months of this year.

Log-In works closely with Mercosul Line on a number of coastal joint services, sharing slots on many of those. It also added a newly acquired vessel, the Log-In Endurance (bought by Log-In subsidiary Log In International GmbH) for \$13.1million, at the start of this year, and deployed her in the South Atlantic Service (SAS) since May.

Log In posted record handling in 2019 of 357,800 TEU, up from 340,300 TEU in 2018, including feeder and Mercosul cargoes. 2018 was the last year where the results showed the coastal services split. In 2018 Log-In handled 179,000 TEU of feeder cargo, down 35% from 185,400 in 2017 and cabotage cargoes were up 13.6% from 109,000 TEU to 123,800 TEU.

Marcio Arany, the CEO of Log-In Logistica Ltda, believes in BR do Mar but also that the market should be aware of “opportunistic newcomers”.

“We believe BR do Mar will improve Cabotage volumes with time, but it is very important to avoid opportunistic newcomers that may potentially compromise the reputation of the modal, by offering a bad service, not reliable, with old and not ecologically friendly vessels. The present fleet is very well adapted and adequate for the cabotage environment,” said Arany.

Arany told DatamarNews that, with the addition of the Log-In Endurance, the company now operates six container vessels (five of 2,800 TEU and one of 1,700 TEU capacity), of which two are built in Brazil, one was imported (Polaris) and three (including Endurance) are on bareboat charters and were built outside Brazil.

With that setup, Log-in is just about at the limit of what it is permitted to charter in, so its shareholders cannot wait for BR do Mar to be completed to allow more capacity to come on tap once the economy picks up.

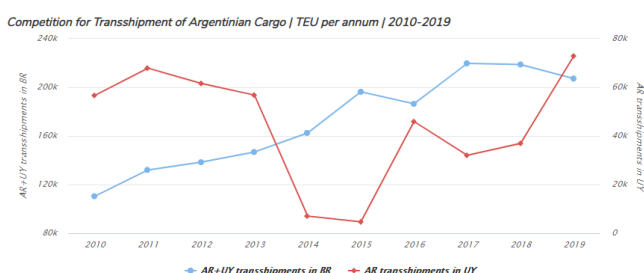
Log In, along with Aliança and Mercosul Line, have their fingers crossed that the legislation will be passed by Christmas.

Cabotage Data Scenario – a Datamar Analysis

A few days ago, a well-known and respected former manager of one of Brazil's leading cabotage operators, posted an opinion piece on social media where he, with witty humor, made a very clear point about the difficulties facing potential new entrants to the cabotage market. See his article here: https://www.linkedin.com/posts/gustavo-costa-736b15123_cabotagem-ugcPost-6701200725638230016-oyic. There is no data you see. Actually, let me rephrase that: There is no good, detailed, domestic cabotage data. Data that would allow new entrants to understand where they might invest their efforts. Or that would allow existing players to make their operations more efficient. The data that does exist does more harm than good, duplicating and triplicating the size of the real market, mixing up international cabotage with domestic cabotage and feedering.

A short analysis by Datamar indicates what cabotage data can currently be gleaned from available data sets. Within DataLiner it was possible to identify Feeder volumes, Intra-ECSA volumes, and Plate cargoes transshipping in Brazil. These represent three of the four types of movements that could be considered part of cabotage shipping.

It is possible therefore to analyze some interesting aspects of cabotage shipping. Specifically, feedering and Plate transshipments in Brazil. These markets are likely to continue to grow as ship sizes grow. The number of services calling directly at Buenos Aires continues to drop, and the extension to terminal operators there means increased dredging of the canal into Buenos Aires is a long way off. That means smaller vessels picking up cargoes from Buenos Aires and transshipping them either in Montevideo or in Brazilian ports. The fight for these cargoes is especially important to Montevideo and in 2019 they were able to eat back some of the market share previously taken by Brazilian ports, as can be seen from the data below:



As far as domestic cabotage goes, however, it is harder to obtain a reading of cargo flows. Data available from Antaq, Brazil's water transport authority, is detailed, but prone to several flaws. Since data is reported by individual ports, one container shipped from say, Santos to Manaus, will be counted as a Load at Santos and as a Discharge at Manaus. If it transships in Suape, it will be additionally be considered a Load and a Discharge in Suape, meaning one cabotage container will be counted four times. The Antaq database is not able to dismember individual container movements and therefore any grouping and aggregation of numbers leads to gross overcounting. Additionally, reporting of the same type of movement can be reported differently by different ports. For example, how does a port report a container arriving in Santos from Buenos Aires, transshipping there, and moving to China? Was that container a cabotage discharge or a deep-sea (long-haul) discharge? Was it also a deep-sea load, or also marked as a transshipment?

Making sense of the available data is truly an analyst's nightmare. All of which represents a further challenge to those who choose to enter the market. But then again, some companies thrive on challenges.

BR do Mar explained: BR do Mar adds an extra flexibility to Brazilian vessel owners, as it allows them to charter in foreign vessels under bareboat charter, and to utilize them in cabotage trades. The extent to which this is permitted is based on the owned tonnage and REB capacity used. In other words, based on the DWT of the company's vessels under the Brazilian flag. This is aimed at the container sector, although the bill in Congress does not restrict it to other types of vessels such as bulk carriers and tankers.

BR do Mar also aims to incentivize the use of cabotage for new projects, by allowing the use of foreign chartered vessels in new routes. It is intended to be used in a long-term project for the transport of commodities such as iron ore, for example.

But BR do Mar does not have any self-applicable regulations. All measures proposed will need regulation by Executive Decree and other instruments to be issued by ANTAQ, the regulatory agency.

The International Navigation Chamber (ICS), together with the International Maritime Health Association (IMHA) and the International Association of Independent Oil Owners (Intertanko), have issued new protocols to mitigate the risk of Covid-19 cases onboard vessels. The protocols aim to safeguard the health of seafarers and ensure the safe operations of maritime trade, offering governments and the general public the confidence that seafarers can embark and disembark responsibly.

Natalie Shaw, Director of Labor Affairs at ICS, said that "the new protocols are based on our previous guidelines and should give industry and governments confidence that maritime trade can operate safely, especially when there are suspected cases of COVID-19 onboard".

"We have seen a small number of Covid-19 cases among the ship's crews in recent weeks and have decided to take the initiative to create new protocols, along with IMHA and Intertanko," said the professional.

Recently, concerns have been raised about Covid-19 infections onboard ships, due to the fact that a small minority does not

follow industry guidelines. Although the number of cases has been limited, the protocols issued recently will provide shipowners and operators with the tools to safely manage cases on ships.

Based on previous health guidelines released by the ICS in May, the new protocols equip ship operators with two new instruments: a flow chart to help identify the process to be followed when dealing with a greater number of suspected cases on ships; and an array of PCR test procedures to help identify what to do and when, before boarding and whether a suspicious case is identified on board.

In August, the Duque de Caxias Refinery (Reduc) concluded its first cabotage operation of Diesel S10, with the loading of 25,000m³ of fuel to the Guanabara Bay Waterway Terminal (TABG), from where the product was transported by ship to the Port of Paranaguá (PR). Reduc has the capacity to produce 150,000m³ of Diesel S10 per month. Until June this year, the segregated internal logistics system for operating the Diesel S10 only allowed supply for distribution companies around the refinery.

With the Covid-19 pandemic and the reduction in demand for this derivative in the Rio de Janeiro region, the refinery carried out internal maneuvers and ballast conditioning in order to enable the product to flow through its interconnection with the TABG, where it has already cabotage and export operations for other products, such as fuel oil, 0.5% bunker, S10 gasoline, petrochemical naphtha, marine diesel, and S500, among others.

“New cabotage operations are already being programmed with the S10 produced at Reduc. With the current levels of local demand, Reduc is able to ship between 60-70,000m³ of the product per month”, explains the sector manager for Production Programming at Reduc, Gabriel Amorim. The availability of this volume directly impacts the reduction of the imported volume to serve the national diesel market and increases Petrobras’ competitiveness vis-à-vis importing agents in the sector.

On August 25, the Federal Government sanctioned Provisional Measure 945/20, which alters the Ports Law by promoting a mini-reform in the legislation, welcoming suggestions from the market. The law also provides rules for port operations during the pandemic, especially the removal and compensation of workers at risk or with symptoms of Covid-19.

Among the main changes is flexibility in the management of lease agreements. From now on, there may be no need to bid on port leases when there is only one interested party involved. In this case, the hiring can be done through a public engagement procedure. The bidding process will also be waived in cases of temporary use (48 months) of port areas and facilities destined for cargo handling by companies with an unconsolidated market (which do not operate regularly at the port). The measure aims to attract new cargo and reduce idleness in port areas.

The law also gives the National Waterway Transport Agency (Antaq) the power to regulate other forms in which port areas and facilities can be developed that are not accounted for in the legislation. Currently, the agency only provides for leases of port facilities.

Another important change establishes that the concession contracts signed between the concessionaire and third parties, including those whose goal is to use port facilities, will be

governed by the rules of private law. Thus, no legal relationship will be established between third parties and the granting authority (Antaq).

Dock workers - For casual port workers, in addition to rules for the removal of employees due to Covid-19, the law contains two other important measures. From now on, the rota of casual port workers for loading and unloading operations in ports will be done electronically, remotely (such as cell phone applications), meaning the professional will only turn up at the port to work.

The text also establishes that if casual port workers are unavailable due to the strike or standard operation, the port operator may freely hire workers with an employment contract for up to 12 months to perform certain services, such as foreman and cargo checking.

Meat

According to ABPA – the Brazilian Association of Animal Protein – health authorities in Hong Kong released shipments of SIF 601 from Aurora Alimentos, a unit located in Xaxim (SC), whose chicken exports had been temporarily suspended for tests. The results of the tests showed an absence of any contamination by Covid-19.

According to the statement, “The Center for Food Safety and the Department for Food Hygiene and the Environment of Hong Kong today issued the authorization to resume shipments, after presenting all clarifications made by the Ministry of Agriculture of Brazil, with the support of the cooperative and the Brazilian Animal Protein Association (ABPA) ”.

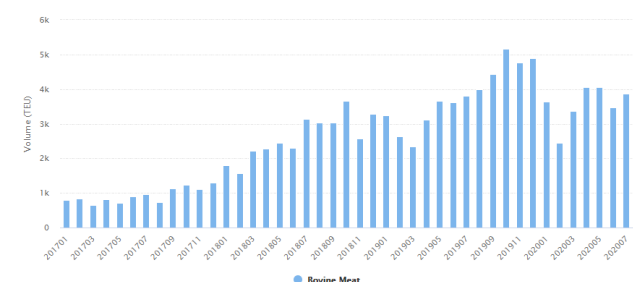
The blockade had been imposed by Hong Kong later this month, after the government of the Chinese city of Shenzhen, in the south of the country, reported that a sample of frozen chicken wings imported from that unit tested positive for the coronavirus, which triggered the voluntary suspension of chicken shipments from this unit to China.

According to the Consortium of Argentine Meat Exporters (ABC), the country’s meat exports continue at a positive pace and so far in August have registered a 23% growth in volume year-on-year. The organization said, in a statement, that China remains the main destination for exports but that the country has met 100% of the quota set for the United States.

The chart below shows a history of Argentine beef exports as of January 2017:

Argentine Beef Exports | Jan 2017 to Jul 2020 | TEU

Argentine Beef Exports | Jan 2017 to Jul 2020 | TEU



Source: DataLiner (To request a DataLiner demo click here)

Source: DataLiner (To request a DataLiner demo click here)

ABAC also pointed out that Argentina grants all health guarantees required by importing countries through its National Health Service (Senasa).

Senasa obtains approval from the European Union- According to Senasa, the European Union reported last week, through CACE Note 563/2020, that it considers Argentine meats to have a reliable control system for beef and sheep exports.

"We are very pleased, since the auditors assessed the knowledge of Senasa's staff regarding EU standards, which reinforces and ensures that controls are in accordance with these requirements in establishments that produce beef and sheep," explained Gustavo Soto Kruse, director of Animal Products at Senasa.

The audit carried out by European experts concluded that the established official control system is "well designed and correctly implemented". The established system provides an adequate basis to support the "reliability of the certificates contained in the export certificates" for this destination.

Information published on the website of the Chinese customs authority regarding Aurora Alimentos points out that the Brazilian slaughterhouse has voluntarily suspended exports of poultry to China from its Xaxim (SC) unit as of August 20th.

In a note, the third-largest pork and poultry producer in Brazil said it received information from the Chinese city of Shenzhen about the detection of traces of the new coronavirus in meat product packaging. However, the company pointed out that, "according to a statement by WHO (World Health Organization) and FAO (United Nations), there is no scientific evidence of virus transmission via product and / or packaging".

The identification of Covid-19 on chicken wings sent by Aurora was registered on the Chinese city website just over ten days ago. "Despite the absolute confidence and the certainty that its production process is free from the presence of the virus, in order to make the Chinese Authorities comfortable, Aurora Alimentos chose to temporarily suspend shipments to China from its Xaxim poultry processing plant. (SC), until the episode reported in Shenzhen is resolved", said the cooperative.

The same unit was also blocked by Hong Kong earlier this month, as a preventive measure against the coronavirus. China has already stopped meat imports from factories belonging to Marfrig, JBS and BRF in Brazil due to concerns related to the coronavirus.

Grain

The US Department of Agriculture (USDA) reported on Tuesday, August 25, that Chinese importers bought more soy from the United States and recorded their largest daily purchase of US corn in almost a month. The acquisitions came as Washington and Beijing reaffirmed their commitment to the Phase 1 trade agreement.

In a daily report on exports, the USDA reported that the Chinese bought 408,000 tonnes of corn and 204,000 tonnes of soy from the United States, both for shipment in the 2020/21 business year, which begins on September 1. Corn sales have been the biggest since July 30, when nearly 2 million tonnes were announced as having been exported to China. Sales to China came after major US and Chinese trade officials said they remained committed to the trade agreement signed in January that provides

for a significant increase in Chinese imports of American agricultural products.

However, Chinese purchases remain well below the pace needed to meet the first-year target of US\$36.5 billion specified in the agreement, according to official data, even after a recent increase in purchases. The United States exported just US\$7.274 billion in agricultural products to China in the first half of the year, according to trade data from the Census Bureau. US soy exports to China typically increase in the fourth quarter of the year, after US crops are harvested and supplies from the main exporter, Brazil, have declined.

It is worth noting that Chinese soy imports from Brazil jumped 27% in July compared to last year, as cheap shipments purchased in recent months arrived in the country. The graph below shows Brazilian soy exports to China per month since 2017:

Brazilian Soy Exports to China | Jan 2017 to Jun 2020 | WTMT

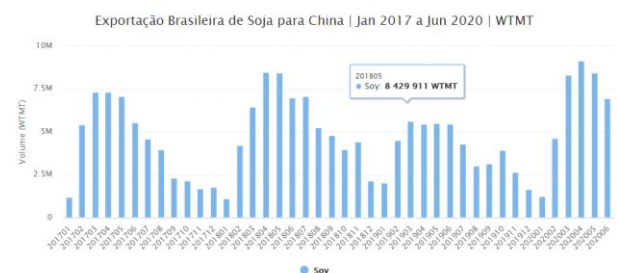


Chart source: DataLiner

Other cargo

Data from the Foreign Trade Secretariat (Secex) points out that Brazilian apple juice exports exceeded that of July 2019. Shipments of the juice increased 17% in the first seven months of this year compared to the same period last year, totaling 8,900 tonnes. The revenue obtained also increased by 20%, totaling US\$9.9 million (FOB) – a very encouraging scenario for exporting agents.

The volume of Brazilian apple juice imported by the United States increased by 58% during this time period. Thus, the participation of the North American country in the total exported by Brazil, which was already large, increased even more to 69%. Japan received 10% of the total, and Germany 10%.

Economy

According to a report published by the newspaper O Globo, since the beginning of the year, the Argentine government has been taking longer and longer to release the entry of Brazilian imports, in breach of the rules of the World Trade Organization (WTO) and the bilateral agreement sealed between both countries.

In recent weeks, delays have intensified and led the National Association of Automotive Vehicle Manufacturers (Anfavea) to inform the Brazilian government about the fact. According to Brazilian government sources, approximately US\$100 million in Brazilian exports from the sector are being held up at the border awaiting approval of the so-called non-automatic import licenses. According to the WTO, the maximum deadline for giving the green light to non-automatic licenses is 60 days. The understanding between the two governments, which foresees the total liberalization of the vehicle trade by June 2029, establishes a limit

of ten days. In recent months, however, some delays exceed 90 days.

"We understand the difficulties in Argentina due to the scarcity of foreign exchange, but agreements are agreements – said the president of Anfavea, Luis Carlos Moraes, in an interview with O Globo. According to him, this scarcity of foreign exchange in the neighboring country (today Argentines can buy only US\$200 per month and there are rumors that the limit could be reduced) ended up creating a system of managed trade. "We are concerned because this type of restriction affects the sector's predictability and planning. We have an integrated production system in Mercosur", he recalled.

The tension due to barriers to imports from the automobile sector came to light at times when the Fernández government, through its new ambassador in Brasília, Daniel Scioli, has been showing a strong interest in working with the Brazilian government to reactivate trade. In less than two weeks, Scioli was received by President Bolsonaro, Chancellor Ernesto Araújo, and Agriculture Minister Tereza Cristina, among other meetings. Everyone expressed his country's desire to balance the trade balance, since in the last 15 years Argentina has accumulated a deficit with Brazil of US\$52 billion.

Asked about the delay in delivering import licenses to automakers with operations in Brazil, a source at the Argentine embassy said that throughout this year licenses for Brazilian imports totaling US\$5 billion were approved, of which US\$993 million was not used.

"We are taking care of the doubts about possible delays. We have already had meetings with the companies and there will be a new round in October. We are aware of the concern and we are in permanent contact with the Brazilian government", assured the source. According to her, "about 92% of requests for non-automatic licenses are authorized in less than 72 hours, and a balance remains that is pending due to some inconsistency or lack of information".

On the Brazilian side, arrangements were made with the Argentine Industry Secretariat, but so far there has been no satisfactory response, a source said.

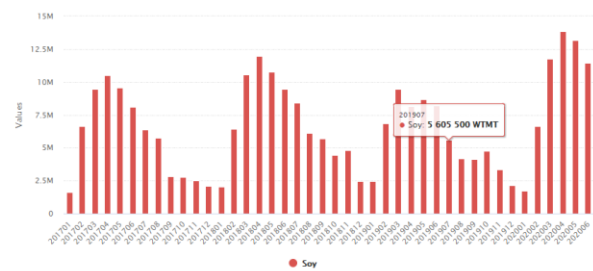
The Ministry of Agriculture said on August 27, that it is assessing the possibility of temporarily exempting tariffs on imports of rice, corn, and soy from countries that are not members of Mercosur to balance the domestic market and prevent price increases. In a note, the agency stated that the measure, which would involve temporary inclusion of these products in the List of Exceptions to the Common External Tariff (LETEC), has been considered by the Secretariat of Agricultural Policy of the portfolio. According to the note, "this proposal should be on Gecex's agenda in September".

The ministry stated that the measure has "support from the productive sector" and aims to "balance the domestic market and prevent the increase in prices of products in the basic basket". "If approved, the adoption of this measure would have a preventive character, since there are no signs of shortages and there is no need to import these products into Brazil," he added.

It is worth noting that the prices of agricultural products are rising in Brazil, pressured among other factors by the rise in the dollar. In the case of soybeans, the country shipped significant

volumes in recent months and inventories are relatively low, as can be seen in the graph below:

Brazilian Soy Exports (HS 1201) | Jan 2017 to Jun 2020 | WTM



Source: DataLiner (To request a DataLiner demo click here)

On August 26, the Chamber of Deputies approved Provisional Measure 960/20, which allows for a one-year extension of the drawback concessions that expire in 2020. The postponement will be made as an exception and will be counted from the date of the end of the benefit. The text is to be analyzed by the Senate.

Created by Law 11.945 / 09, the drawback is an incentive granted to exporting companies. The measure temporarily suspends the payment of federal taxes on inputs used in the production of goods intended exclusively for export. The advocate for the measure, deputy Alexis Fonteyne (Novo-SP), recommended the text sent to the Senate with some modifications. "Due to the pandemic, exporting companies may find themselves unable to meet the requirements of the special regime, due to the fall in international trade," he explained.

Rules - Fonteyne accepted the amendment suggested by deputy Alessandro Molon (PSB-RJ), which sets a deadline of 30 days for the company benefited by the drawback to be liable for import taxes when there is a breach of the requirements of the special regime.

To receive the incentive, the company needs to qualify with the Foreign Trade Secretariat of the Ministry of Economy, responsible for granting the drawback. Among the suspended taxes are the import tax, the tax on industrialized products (IPI), and the contribution to the financing of social security (Cofins).

Pandemic

The objective of the measure, according to the government, is to mitigate the economic effects of the Covid-19 pandemic on exporting companies with drawback concessions signed in 2018 and due this year. Among the products sold abroad that benefit from the special regime are iron ore, chicken, and cellulose.

In 2019, exports via drawback totaled US\$49.1 billion, corresponding to 21.8% of the total exported by Brazil, according to a report by the Ministry of Economy released in March.

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