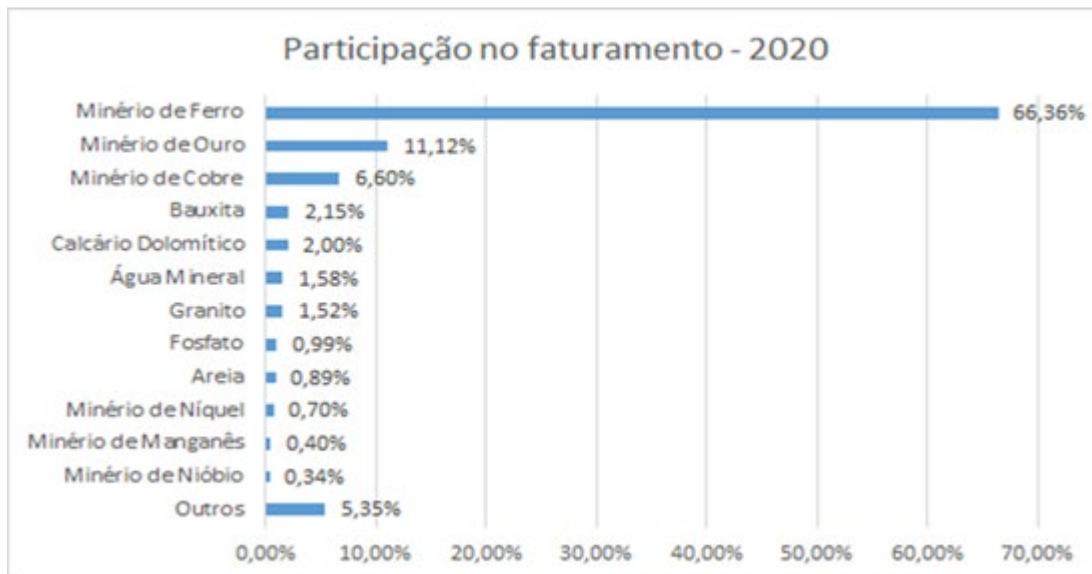


Price Transfers: improper invoicing by Vale S.A. through price transfer mechanisms

Mining occupies a relevant part of Brazil's export agenda, just as the country is of absolute relevance in world mineral production as it is the world's largest producer of niobium, the 3rd for manganese, 4th for nickel, as well as the 2nd largest producer of iron ore, with approximately 410 million tons, which is the main source of revenue for the mineral sector in Brazil.



SOURCE: INSTITUTO BRASILEIRO DE MINERAÇÃO, 2021.

However, the commercialization of minerals contributes little to the country's Gross Domestic Product (GDP): “Despite occupying a large space in the 2018 export agenda, considering only mining, separated from the oil industry, it represented only 0.68% of GDP in Brazil” (MME – Mining and Energy Ministry, 2020).

Brazilian mining companies use mechanisms that provide greater profitability, such as capital flight which mainly affects countries with peripheral economies. Undue commercial invoicing means “price manipulation in international trade between related companies based in two different countries” (Latindadd, 2017). Such a mechanism allows the undue international transfer of financial resources, evading taxes and inspection. Therefore, they are used as a form of money laundering, repatriation of resources and channels for illicit activities.

Among the main mechanisms of illicit financial flows (IFF) we have the transfer of prices, which is done through the sale of goods or services by a given company, at

prices below those practiced in the market, to affiliates located in tax havens, which then resell them to the final consumer at normal prices. The price transfer mechanism is one of the main ways used by mining companies in Brazil to reduce the payment of taxes.

One of the main taxes levied on mining activity in Brazil is the Financial Contribution for the Exploration of Mineral Resources (CFEM). CFEM is a financial compensation paid to the Union for the economic use of non-renewable mineral resources, exploited under the public concession regime. Sixty percent of the amount collected as CFEM belongs to the mining municipality, and the body responsible for supervising and monitoring CFEM payments is the National Mining Agency (ANM). In 2020, CFEM collection grew by 35% compared to 2019. Pará accounted for the largest share (51.2%), followed by Minas Gerais (38.9%).

The main mining company operating in the country is Vale S.A., having recorded a net profit of 26.713 billion Reais in 2020, a jump from the loss of 6.672 billion Reais in 2019 (VALE, 2021). In 2021, Vale had a net profit of 121 billion Reais, due to the rise in commodity prices and the intensification of extraction in the years of the Covid-19 pandemic. Part of the profit that Vale obtains derives from the practice of transferring prices.

It is estimated that, between the years 2009 and 2015, the mineral sector avoided paying federal and state taxes in the amount of 48 billion dollars only on the sale of iron ore. The years 2010 and 2011 represent the peak values of the transfer practice, both with estimates above 10 billion dollars. The main economic impacts of the transfer of prices occur on the mined municipalities, as they receive the largest share of the financial compensation (CFEM), and are thus denied significant amounts that could be invested in health, education, economic diversification and the like. It is estimated that the Brazilian State lost, in the period, a total of 949 billion dollars just with the non-payment of CFEM on iron ore exports by Vale.

Município	Arrecadação da CFEM (2009-2015)	Perdas Municipais	Perdas Municipais (Dólares)	Valor Deflacionado
Brumadinho-MG	R\$ 99.664.358,99	R\$ 56.706.834,29	\$ 13.064.027,29	\$ 20.098.503,53
Mariana-MG	R\$ 567.066.247,09	R\$ 322.648.256,90	\$ 74.331.175,21	\$ 114.355.654,20
Congonhas-MG	R\$ 120.009.161,35	R\$ 68.282.580,60	\$ 15.730.828,71	\$ 24.201.274,93
Ouro Preto-MG	R\$ 102.486.429,07	R\$ 58.312.530,27	\$ 13.433.944,90	\$ 20.667.607,53
Barão de Cocais-MG	R\$ 100.367.908,51	R\$ 57.107.138,54	\$ 13.156.248,73	\$ 20.240.382,66
Itabira-MG	R\$ 713.344.742,95	R\$ 405.877.512,70	\$ 93.505.394,38	\$ 143.854.452,90
Catas Altas-MG	R\$ 53.062.590,66	R\$ 30.191.450,24	\$ 6.955.456,69	\$ 10.700.702,60
Belo Vale-MG	R\$ 9.203.502,71	R\$ 5.236.591,18	\$ 1.206.397,27	\$ 1.855.995,80
Parauapebas-PA	R\$ 2.401.951.956,20	R\$ 1.366.657.980,00	\$ 314.848.419,60	\$ 484.382.184,00
São Gonçalo do Rio Abaixo-MG	R\$ 541.643.381,54	R\$ 308.183.204,00	\$ 70.998.740,09	\$ 109.228.830,90
Total	R\$ 4.708.800.279,07	R\$ 2.679.204.078,72	\$ 617.230.632,87	\$ 949.585.589,05

With respect to the municipality of Parauapebas, in the state of Pará, a municipal loss of approximately 314 million dollars is estimated as a result of the Vale's transfer of prices, being the location most affected by the company's practice. In Mariana, state of Minas Gerais, losses are estimated at approximately US\$74 million, and in Itabira (MG), the place of Vale's first mineral exploration project, losses are estimated at around US\$93 million.



