

POLICY MONITOR

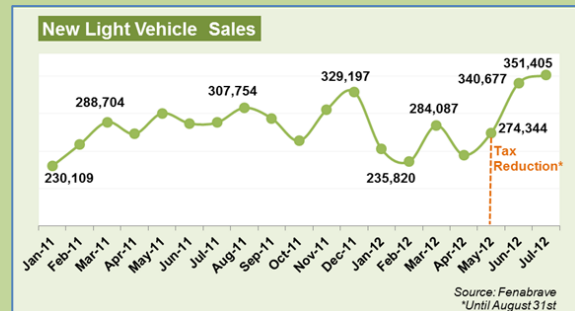
July 30 – August 3, 2012

THE WEEK IN REVIEW

As anticipated, the Mensalão (a vote-buying scheme) trial that started yesterday (August 2) at Brazil's Supreme Court grabbed the headlines this week. In the first session, the judges ruled that the lawsuit will not be broken down, a decision that could hurt the defendants, who seek to delay the trial. The case involves high-ranking officials of the Lula administration, such as the former chief of staff José Dirceu, accused of running a scheme that bought votes in Congress with monthly stipends (mensalão). Besides politicians, the alleged scheme also included advertisers, executives and bankers. According to Attorney General Roberto Gurgel, the case was "the most daring and outrageous corruption scheme and embezzlement of public funds ever seen in Brazil." The defendants denied any wrongdoing. In PATRI's view, the Supreme Court is likely to adopt a technical approach, focusing on the financial aspects of the case, which in turn could characterize Dirceu as the leader of a scheme operated inside the Planalto Palace. The trial could last until September and demonstrates that Brazil's young democracy has reached institutional maturity.

On the economic front, the Rousseff administration continued to be confronted by federal employees that have gone on strike for pay hikes. The movement has slowed down the release of goods in ports

and airports. After signaling it might adopt a more diplomatic stance with strikers, the administration now says it will not negotiate under pressure and has called state officials to replace strikers and facilitate customs and sanitary inspections. The strike, which will be joined by Central Bank employees next week, also hindered Brazilian exports. According to MDIC (Ministry of Development, Industry and Foreign Trade), Brazil presented a US\$ 2.9 billion current account balance surplus in July, a 8.3% drop over 12 months. The global crisis has also impacted Brazilian exports. Meanwhile, Fenabrave (vehicle distribution association) reports a strong jump in new auto sales. Since the government announced tax relief measures in May, monthly sales jumped 28%.



Below, key policies that were tracked by PATRI during the week.

Tax & Investment

IMF Report

Overview

The IMF (International Monetary Fund) [issued a report on Brazil's current economic condition](#), which points out some adjustments the country has implemented as well as possible downfalls. The report lists changes such as the expansion of loans to a wider range of borrowers, as well as the decrease in interest rate.

It also indicates that Brazil has a solid financial system that can absorb other global economic shocks. However, it also suggests how the country can improve its system, such as by strengthening the Central Bank's ability to support lending institutions in case of a crisis.

Greater Brazil Plan Evaluation

Overview

On the one year anniversary of the Greater Brazil Plan (*Plano Brasil Maior*), CNI (National Confederation of Industry) released a poll on the industry's evaluation of the impact of the program. The results show that 82% of companies consider the initiative appropriate and as having positive effects. However, they are insufficient to increase the industry's competitiveness. It would be necessary to expand the scope of the plan and introduce new measures for it to be effective at enhancing the competitiveness and, thereby, the economic growth of the country. The industries that were surveyed advocated for the expansion of payroll tax exemption, reduction of red tape, simplification of the tax system and labor laws. Reduction of the tax burden and reduction of energy costs were also considered important. Some of the main results of the survey include:

- 58% of companies believe that the Greater Brazil Plan has not affected the growth of Brazilian industry, but 30% said there was a positive impact
- 63% of companies believe the results of the program will be felt in the next two years
- 68% of companies said that the program does not impact their current investment projects
- 71% of companies consider the payroll tax exemption as having the greatest impact on their products' competitiveness

Industry Confidence Index

Overview

FGV's Industry Confidence Index for July decreased 0.5% between June and July, making this the lowest index in the last five years. This decrease was due to the worsening in the current evaluation of companies. Furthermore, there is little hope for improvement in the outlook for the coming months. Also, CNI's June Industrial Survey showed a downward trend in already sluggish industrial production: industry is employing fewer people, inventories remain high and business owners remain pessimistic about the cost of raw materials and delinquency.

World Cup – Urban Mobility

Overview

ME (Ministry of Sports) issued [Resolution No. 11](#) that updates the responsibility matrix of World Cup projects regarding urban mobility. There are two major programs currently in process. One will improve state roads and Federal highways, providing a wider range of access to Natal, capital of the state of Rio Grande do Norte (Brazil's northeast region), and the other will bring airports up to date with new technology so that it can accommodate the expected influx of fans to the area in 2014.

Additional information will be published in the coming days on the [2014 World Cup](#) website.

Corn and Soybean Outlook

Overview

MAPA (Ministry of Agriculture, Livestock and Supply) held its first Forum on Agricultural Policy to discuss the current and future state of Brazilian agriculture. The first edition focused on two

major crops, soybean and corn, since the price of these commodities in international markets is expected to remain high at least for the next two harvest seasons (2012/13 and 2013/14).

Brazil may temporarily replace the United States as the world's largest producer of soybean due to a projected 10% increase in production compared to last year, which will help meet the world's demand. This scenario seems likely, since the drought and irregular rainfall affecting US productivity will favor an increase in international prices. The participants in the Forum also emphasized that this price hike already affects the meat production chain that uses these products as animal feed. For now, price reductions seem very unlikely, while inflation in these sectors is more plausible.

Next Step

The second edition of the Forum will be held on September 19, 2012 in Brasília with Joseph Spense, director of USDA (US Department of Agriculture).

Trade Facilitation

Agrotoxic Labelling

Overview

Mapa (Ministry of Agriculture, Livestock and Supply) issued [Normative Instruction No. 14](#), which establishes that all pesticide labels should include a colorful toxic label. Companies have 150 days from the date of this publication to comply. Products already on the market will not need to be recalled for new labeling.

Dumping

Overview

[SECEX \(Secretariat of Foreign Trade\) verified that the United States as well as South Africa were dumping exports](#) to Brazil of cold rolled stainless steels, commonly classified in items 7219.32.00, 7219.33.00, 7219.34.00, 7219.35.00 and 7220.20.90 of the NCM (Mercosur Common Nomenclature).

Energy & Environment

Working Group on Extractive Reserves

Overview

[MMA \(Ministry of Environment\) created a working group](#) to organize, monitor and systemize the results of the public consultation on the draft normative act to regulate the Extractive Reserve National System of Nature Conservation.

Extra

Additional Phone Digit

Overview

Due to the size of the population of the city of São Paulo, a ninth digit will be added to phone numbers. Anatel (telecom regulator) said that phone numbers with 8 digits will still work until August 7th. After that they will only operate with the extra digit.

THE PULSE

2012 Municipal Midterm Elections

As of October 7th, 138.5 million Brazilians are eligible to cast their ballots, electing over 5,500 mayors and almost 60,000 city counselors. Beyond the local contests, the upcoming race could mark a turning point in the Rousseff administration's relationship with its broad coalition and create a new national balance of power. PT (Rousseff's party) aims to surpass PMDB (Vice-President Michel Temer's party) in the races, grabbing municipalities and expanding its presence all over Brazil. Currently, PMDB holds 1,203 municipalities and PT 557. However, the **bad publicity generated by the *Mensalão* trial could undermine PT's goal.**

The outcome of the dispute between PT and PMDB should also impact their alliance at the federal level. If PT is able to control more municipalities, its mayors in small cities could also benefit since they could be favored in the federal budget and appropriations process, thus circumventing Congressmen that usually mediate the financial bargain between the Union and the mayors. **Despite election results, Rousseff should face increased frictions within her base. After the election, the president should announce a cabinet reshuffle to reward loyal allies and push her economic agenda to reduce the "Brazil cost" (*Custo Brasil*).**

The mayoral elections should be a tight race in at least three of the main state capitals: São Paulo (8.6 million voters), Belo Horizonte (1.8 million voters) and Recife (1.2 million voters). Both Rousseff and former President Luiz Inácio Lula da Silva are trying to influence the contest in these three strongholds by "federalizing" the campaign with issues that benefit PT. In São Paulo, Lula has made a big political bet picking a novice, former Education minister Fernando Haddad as the PT candidate. In some sense, the midterm race will be a warm-up for the 2014 presidential contest, when Rousseff will probably seek reelection.

