

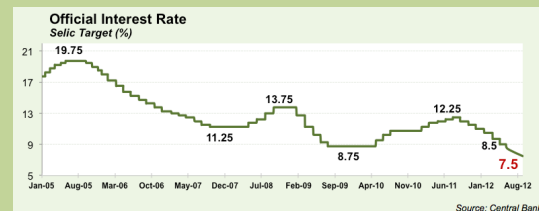
POLICY MONITOR

August 27 – 31, 2012

THE WEEK IN REVIEW

For the ninth consecutive time in a year, the [Central Bank cut the benchmark interest rate Selic by 0.5% to a new historic low of 7.5%](#). In a cautious statement, the monetary authority hinted that the current easing cycle may be close to an end and that any further cut “should be carried out with maximum parsimony.” President Dilma Rousseff said the new Selic level should drive Brazilian bank spreads towards convergence with international levels. **According to the LOA (budget bill) sent by the administration to Congress, Brazil will grow by 4.5% and inflation should amount to 4.85% in 2013.** IBGE (statistics agency) announced this Friday that GDP grew by only 0.5% in the second quarter. However, that result was within expectations. The administration also announced it will extend the IPI (excise tax) breaks for automobiles, home appliances and building materials (see below). Although the current tax breaks amount to BRL\$ 5.5 billion, the *Associação Comercial de São Paulo* (SP state retailers association), estimates that as of August 29th Brazilian taxpayers have already paid over BRL\$ 1 trillion in local, state and federal taxes. In 2011, the same tax collection level was reached by September 13th. Congress approved Provisional Measure MP 564 that creates a state-run insurance company, called “Segurobrás” by the Brazilian media. Also, Caixa Econômica Federal (a state bank) announced it will create an investment bank to operate in the capital markets.

After weeks of political fray and losses for sectors such as agriculture, drugs and cosmetics, [most federal employees that went on strike accepted the government’s proposal for salary increases up to 15.8% along the next three years.](#) *Valor Econômico* newspaper pointed out that given that federal employees payroll is the Union’s second largest expenditure and it is now under control until 2014, Rousseff scored a significant victory. Meanwhile, the Supreme Court convicted five defendants, including Congressman João Paulo Cunha of PT (Labor Party), a former speaker of the House during the Lula administration. Cunha was convicted for bribery and embezzlement in the Mensalão (a vote buying scheme) trial. In PATRI’s view, as the trial continues, more of the 38 defendants will probably be convicted for the same type of crimes. **If this happens, it would have a positive and lasting impact on the Brazilian political system.**



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

Tax & Investment

Tax Exemption / IPI

Overview

In an effort to stimulate the economy and boost growth, the government extended the IPI (excise tax) break for cars, home appliances, furniture, panels, laminates, fixtures and building materials (including paints, varnishes and polyurethane). Conditions and rates were maintained, only the deadlines were postponed:

- **Vehicles:** extension until October 31, 2012 – fiscal waiver: BRL\$ 800 million (US\$ 400 million)

- **Home Appliances:** extension until December 31, 2012 – fiscal waiver: BRL\$ 361 million (US\$ 181 million)
- **Furniture, Panels, Laminates:** extension until December 31, 2012 – fiscal waiver: BRL\$ 371 million (US\$ 186 million)
- **Lamps:** extension until December 31, 2012 – fiscal waiver: BRL\$ 22 million (US\$ 11 million)
- **Building Material:** extension until December 31, 2013 – fiscal waiver: BRL\$ 1.8 billion (US\$ 900 million)
- **Capital Goods:** extension until December 31, 2013 – fiscal waiver: BRL\$ 1.1 billion (US\$ 550 million)

To stimulate the expansion and renovation of Brazilian industry, the government announced a new measure that enables companies to accelerate the depreciation of trucks and trailers to reduce the basis of calculating the income tax and social contribution. The Investment Support Program (PSI), the financing line of BNDES for the purchase of equipment and trucks, was also extended.

Click [here](#) for Finance Minister Guido Mantega's presentation.

Limit of Currency Purchase

Overview

CAE (House Committee on Economic Affairs) passed [PLS 16/12](#), which increases to up to US\$ 10,000 the limit for foreign exchange transactions without the need for a foreign exchange contract. This bill amends [Law 4131/62](#), which regulates foreign capital and remittances abroad. This bill has already been approved by CRE (House Committee on Foreign Relations)

Next Steps

The bill awaits approval by the House. It does not have to pass the Senate.

Federal Revenues

Overview

The Internal Revenue Service in Brazil (*Receita Federal*) announced that the country collected BRL\$ 87.9 billion (US\$ 43.95 billion) in taxes in July. This represents a 7.36% drop in real terms over the same month last year. The result is even worse than in June, when there was a 6.55% decrease compared to June 2011, and had a direct impact on annual revenues, which presented a strong deceleration compared to recent months.

From January to July, revenues totaled BRL\$ 596.5 billion (US\$ 298.6 billion), representing an increase in real terms of 1.89% compared to the same period last year. Despite the increase in sales of goods and services (12.30%), tax collection in July continued to be negatively impacted by the drop in industrial production (-5.52%) and reduction in the dollar value of imports (-2.36%). July was also impacted by tax exemptions granted by the government since the end of last year. Just for vehicles, the revenue from IPI tax dropped 71.3% compared to the same month last year.

Regardless of this poor performance, *Receita Federal* still expects a real increase of between 3.5% and 4% in annual revenues.

Ports and Airports

Overview

An official Brazilian delegation is visiting European countries in search of ports and airports of reference, in order to finalize concession measures for these sectors. These measures should be announced in September.

The delegation is visiting Germany, Belgium, Netherlands and France and will present their findings to President Rousseff next week. The group's goal is to explore public-private partnerships in these countries.

There is still no consensus on the models to be adopted for airports, but for ports, the government intends to:

- establish a new regulatory framework for the sector
- attract BRL\$ 30 billion (US\$ 15 billion) in investments within 5 years
- unlock over BRL\$ 10 billion (US\$ 5 billion) to spend on investments in expansion and modernization of terminals leased before 1993
- grant three new ports (Bahia, Amazonas and Espírito Santo) to private companies

Energy & Environment

Forest Code

Overview

The Provisional Measure ([MP\) 571/12](#), which amends the New Forest Code ([Law 12.651/12](#)), is headed to the House floor. An agreement on certain issues allowed the Joint Committee to approve the matter. The measure was unanimously approved by the Joint Committee, composed of members who represent agribusiness and those who support the Federal Government.

The major changes proposed that enabled approval by the committee included the reduction of Permanent Preservation Areas (APPs) in certain cases, consideration of APPs in cases of artificial water reservoirs, and compensation of Natural Reserves after the calculation of APP. However, after the Joint Committee approved (MP) 571/12, the administration issued a statement saying it does not endorse the amendment that reduces areas to be reforested near river banks.

Next Steps

The measure will be voted in the House. The MP expires on October 9, 2012.

Industry & Climate Change

Overview

CNI (National Confederation of Industry), MDIC (Ministry of Development, Industry and Trade) and MMA (Ministry of the Environment) [signed an agreement that intends to revise the Industrial Plan for Climate Change Mitigation \(Plan Industry\) for 7 sectors](#). This will represent 5% of the greenhouse gas emissions established in the National Plan on Climate Change. Sectors contemplated are: aluminum, cement, pulp and paper, chemical, dry-line chalk, glass and steel.

Oil Spill

Overview

The Rapporteur of [PLS 94/12](#), which includes a provision for contingency plans in oil spills, in bidding processes for the exploration of oil, natural gas or other hydrocarbons, recommended approval of the bill. Among the changes proposed is the requirement to have contract clauses that establish mandatory verification of greenhouse gas emission and conduct environmental audits of the entire extraction and distribution operation.-

Next Step

After CMA (Senate Committee on the Environment, Consumer Protection and Surveillance and Control) votes on the bill, it will follow to CCJ (Committee on Constitution, Justice and Citizenship) and then CI (Committee on Infrastructure).

Regulatory Impact

Overview

[ANEEL \(Electric Energy Regulatory Agency\) decided to open for public comments the resolution that establishes the mandatory application of analysis of regulatory impact](#) (AIR – *Análise de Impacto Regulatório*) of all regulations previous to its publication. Comments can be sent until October 23, 2012. AIR is the procedure that determines the necessities and consequences of a certain regulatory measure. If approved this requirement would be essential for regulatory proposals and would evaluate whether or not the measure obtained the desired effects.

Education

Overview

The U.S. Commerce Department is leading (August 30 to September 5) a delegation of 66 U.S. colleges and universities to Brazil. Besides exploring opportunities for international student recruitment and exchanges, the group, led by Undersecretary for International Trade Francisco Sanchez will meet with MDIC (Ministry of Development, Industry and Trade), MCT (Ministry of Science and Technology), MEC (Ministry of Education) and CAPES (Graduate Education Agency). This visit is a result of the pledges made by Presidents Obama and Rousseff to advance educational initiatives in both countries, the [Science Without Borders](#) program in Brazil and 100,000 Strong in the Americas in the United States.

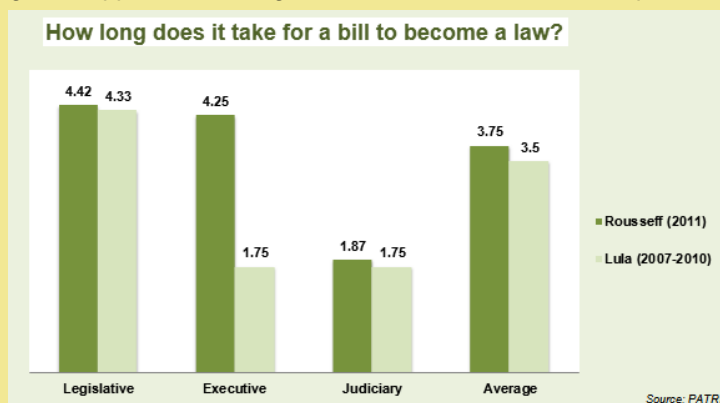
THE PULSE

HOW LONG DOES IT TAKE FOR A BILL TO BECOME A LAW IN BRAZIL

On average, it takes 3.5 years for a bill to become a law in Brazil. The origin of the bill (Executive, Legislative or Judiciary), the use of constitutional fast track tools, and the relationship between the President and Congress can significantly impact how long it takes for a bill to become a law. **According to a PATRI report, during Lula's government the speed of approval of Executive Branch bills was significantly higher than Legislative ones. The difference in speed between those originating in each branch was 147%.** Bills originating in the Legislative took approximately 4.33 years to become law, while the ones originating in the Executive demonstrated greater agility, taking only 1.75 years. Judiciary bills took the same time as the Executive, but these normally move faster since they deal with issues related to public nominations and changes in court members.

There are two important constitutional tools that presidents can use to influence the legislative process: **Provisional Measures (MP)**, norms with the force of a law that are enacted by the president in cases of urgency or relevance and that are effective 60 days after publication; and the **"urgency regime"** (*regime de urgência*), a request for Congress to speed up (to 45 days) the legislative procedure of bills issued by the President.

During her first year, Rousseff frequently used MPs, but only requested the "urgency regime" in 10% of the cases. On the other hand, Lula intensively used both tools throughout his mandate. In 2007 alone, out of 34 bills sponsored by President Lula, he requested the "urgency regime" for 44% of them. It is worth noting that Lula had a closer and more powerful relationship with Congress, while President Rousseff has avoided depending on Congress. She sent fewer bills than Lula to Congress and most of them were focused on issues of general interest to society, which enabled her to still get them approved. Bottom line: the speed of getting a bill approved in Congress can be in the hands of the president.



Editor's note: In a previous edition, the Pulse on *Guerra dos Portos* stated that the Confaz meeting would be held in August. In fact, it will happen in September.