Brazil-U.S. Business Council

Brazil Bulletin

Interview: **Raissa Lumack, Vice President for Human Resources of Coca-Cola; Fernando Valente Pimentel, Executive-Director of the Brazilian Textile Association (ABIT); Alexandre Furlan, Vice President of the National Confederation of Industries (CNI)**

--"Brazil generates 1.1 million new jobs every year. We also generate 3.8 million new labor suits."—

Failure to reform Brazil's antiquated labor code is one of the biggest disappointments of the last decade, according to most economists. One of the ironies is that labor reform is championed not only by business leaders but also by most unions. "It would be nice if our lawmakers listened a little more closely to both workers and employers on this question," according to Coca-Cola executive Raissa Lumack. Three prominent business leaders recently discussed the labor reform challenge before an audience of investors and reporters in a round table sponsored by the National Confederation of Industries (CNI). Excerpts follow:

- **Alexandre Furlan:** "Our labor code is more than 70 years old. It treats everyone the same, even when there are difference between industries and skill levels. The code was adopted at a time when 80% of Brazilians lived on farms and only 20% in cities. It is way out of date. It has not kept up with advances in technology nor has it kept up with the changing labor environment in countries competing with us."

- **Raissa Lumack:** "There is a lot of myth-making surrounding the topic of labor reform. Reform doesn't mean a loss of labor rights. It means allowing a more flexible approach to work and to the workplace. Workers want this too. For example, they may want flexible hours and employers may be very willing to accommodate them but then you find out the law doesn't allow it! It would be nice if lawmakers listened a little more closely to both workers and employers!"

- **Fernando Valente Pimentel:** "Brazil generates 1.1 million new jobs every year. We also generate 3.8 million new labor suits. Labor issues have become predominantly judicial to a point that often seems infantile, with courts ruling on the most insignificant workplace issues. The labor judges seem to think the employer is almost always the villain and the worker a victim. I sometimes have the feeling the labor courts are sooner or later going to prohibit workers from doing any work whatsoever."

- **Furlan:** "Labor costs and productivity have become major questions for Brazil as we attempt to become more competitive in global markets. Our labor laws are very complex and often unclear. They are often interpreted by labor court judges in ways that are arbitrary. This creates a climate of legal uncertainty for anyone trying to run a business."

- **Lumack:** "The government is demanding a lot of employers and not giving very much in return. The reality is that, very often, companies are feeding, clothing, transporting and educating their workers. They are also providing healthcare through company insurance plans. Why? Because the government is *not* providing adequate public health, transportation and, especially, education.

The level of public education in Brazil is so poor that most companies have to re-educate their employees in order to make them productive."

- **Pimentel:** "We are losing even our domestic market to foreign competition now because of stagnant productivity. The labor courts bear some of the responsibility for this. We're regulating ourselves out of business."

Top News of the Week

Congress hands administration defeat on spending, calls fiscal policy into doubt. Brazil's Congress last week handed the administration of President Dilma Rousseff a major defeat on a mandatory spending bill, calling into question the government's overall fiscal austerity policy. In a lopsided vote, Congress approved a constitutional amendment reserving 1.2% of all federal revenues for so-called 'earmarked' spending bills. The bills represent spending on specific projects proposed by individual members of congress. Under the amendment, the administration is obliged to implement the spending programs under each and every earmark. Previously, the executive branch was free to impound funds appropriated for earmarks by citing overall fiscal goals. Economists estimate that mandatory earmarks will cost the Federal Treasury about R$9.8 billion this year, making it more difficult for the administration to reach its goal of a R$66 billion primary budget surplus. The government is committed to a hefty surplus this year after posting a deficit in 2014. More broadly, last week's vote places a question mark over congressional willingness to support other aspects of the administration's 2014 fiscal austerity policy, which includes tax hikes and across-the-board spending cuts.

Petrobras faces new challenge as overseas investors initiate suit. Law firms in New York last week closed out the list of Petrobras shareholders joining a U.S.-based class action suit against the company for losses resulting from a sprawling corruption investigation. The suit includes individual as well as corporate plaintiffs. A total of nine plaintiffs listed losses of $50 million, or more, each. Total alleged losses of the nine reached $530 million. Hearings in the case will begin in March before a New York federal court. The suit involves holders of American Depositary Recipts (ADRs), the equivalent of shares in Petrobras. The ADRs have lost more than half their value since police in Brazil began investigating the company for bribery, money laundering and other alleged crimes. Meanwhile, prosecutors extended the reach of their probe last week. Brazil's Chief Federal Prosecutor, Rodrigo Janot, spent much of the week in Washington, meeting officials of the Federal Bureau of Investigation, among others, in efforts to boost cooperation in the Petrobras investigation.

Finance Minister Levy tells investors Brazil will present investment plan by April. Sometime in April, Brazil's government will announce a new strategy designed to attract domestic and foreign investors, Finance Minister Joaquim Levy told investors during last week's meeting of G20 finance ministers in Turkey. Aides said the investment strategy will focus on making concession contracts for major public works more attractive for investors. Meanwhile, the minister will focus on implementing a series of fiscal austerity measures in the face of increased resistance from Congress (see item above). In a speech in Brazil, later in the week, Levy said, "The fiscal adjustment plan is absolutely essential for obtaining financial market confidence." The plan includes tax hikes combined with cuts in federal spending and reductions in selected welfare and unemployment benefits. The benefit cuts have attracted the ire of labor unions, who are actively lobbying Congress to reverse the government's policy. Planning Minister Nelson Barbosa joined the campaign in favor of austerity, telling reporters, "The government is absolutely committed to a primary budget surplus this year equal to 1.2% of GDP."

Business News

Investment News:

Brazilian **state-run corporations** reduced their investments in 2014 by 15.7% against the previous year, according to a report by the Planning Ministry last week. Total investments were R$95.4 billion. Investments lagged behind 2013 because of legal and administrative delays caused by the sweeping investigation of alleged corruption at Petrobras, Brazil's largest state-run company. Investments were also down because of dwindling profits at state-run companies due to a sluggish economy. The government is planning a boost in investments this year to R$105.7 billion.

Company News:

After a three-year battle, Brazilian mining giant **Vale** last week finally won permission from China's government to dock "super-sized" bulk carriers at that nation's ports. The vessels, which Vale purchased in 2008, can carry up to 400,000 metric tons of mineral ores at a time. They will be used to slash freight costs between Brazil and China. The Asian country is Vale's biggest iron ore client. China first blocked use of the super ships early in 2012, citing safety reasons. However, Vale executives suspected the Chinese government was attempting to protect domestic carriers, who do not use the large vessels.

Brazilian Calendar

Monday and **Tuesday**, February 16-17, Annual Carnival Holidays

Sunday, February 22, Daylight Savings Time ends

Indicators

Foreign exchange rate: **R$2.78 = $1.00**

Broadband Internet connections expanded by 8.03% in 2014, reaching 23.9 million, the National Telecommunications Authority (Anatel) said last week. Some 36.5% of Brazilian households now have access to **broadband Internet**. Growth was accomplished mainly through investments and promotions by Internet providers.

The Brazilian Census Bureau (IBGE) last week released final figures for 2014 **retail sales**, showing the worst performance for sales since 2003. Sales were up a bare 2.2%, or far below the 2014 inflation rate of 6.4%. Sales had risen 4.3% in 2013. Consumers moderated their purchases last year because of increased job insecurity, rising debts and high interest rates. The current year shows little prospect of improvement, with inflation already running at 7.1% and interest rates continuing their upward spiral.

The Brazilian Central Bank's **IBC-Br** economic activity index showed a decline in 2014 of 0.15%, reversing growth in economic activity of 2.52% observed in 2013. The index slipped into negative territory on an unexpected 0.55% dip in economic activity in December against November. The index showed the worst performance for the Brazilian economy since the recession year of 2009. The index measures many, but not all, aspects of gross domestic product. Official GDP figures for 2014 are due for release in March. Economic activity suffered in 2014 because of rising inflation, high interest rates and worrisome levels of consumer debt.