Brazil-U.S. Business Council
Brazil Bulletin

Interview: Clésio Andrade, President of the National Transportation Association (CNT)

--"The Brazilian people are dissatisfied and they're increasingly pessimistic."—

A public opinion poll last week showed continued strong support for the re-election bid of incumbent Brazilian President Dilma Rousseff in October. But the same poll showed a pattern of dissatisfaction with public services and a rising tide of worry about the economy. For example, some 77.2% of respondents said they expect inflation to get worse through the rest of the year. Voters also showed themselves to be highly skeptical about public policies. A resounding 75.8% of respondents said Brazil should never have bid to host the 2014 soccer World Cup. Large majorities also expressed unhappiness with policies in areas such as crime prevention, health and job creation. In commenting on the poll to reporters, CNT President Clésio Andrade said the results constitute "a warning" to incumbents at all levels of government. Excerpts follow:

- **On short-term and long-term implications of the poll:** "It's clear from the poll that, if the election were held today, President Dilma Rousseff would be re-elected. But the poll also serves as a warning, not only to the president but also to the other candidates. The Brazilian people are dissatisfied and they're increasingly pessimistic. They're pessimistic about inflation, about health and about public safety."

- **On public opinion and the soccer World Cup:** "Perhaps the biggest surprise is the level of dissatisfaction with the investments made for the World Cup, which to most people seem excessive. People are saying they think investments in the World Cup are a waste of money. Only the elite will be able to attend the games. Brazilians are passionate about soccer and they think Brazil's team will win the Cup but they also think other kinds of investments would have been better, such as health, education and public safety."

- **On public protests:** "Another message comes from the fact that 85% of respondents say they support the kind of public protests we saw last June and 15% say they would take part in new protests. That's 20 million people on the streets. These kinds of protests can be fatal for incumbents at all levels, state, federal and municipal."

- **On dissatisfaction and the Rousseff administration:** "Dissatisfaction does not automatically translate into loss of support for the president. But the poll is certainly a warning sign."

Top News of the Week

Brazil postpones trade retaliation, sends cotton subsidy case back to WTO. Brazil's government last week once again postponed the possibility of trade and intellectual property retaliation against the United States stemming from a long-simmering dispute over U.S. subsidies to cotton farmers. Brazil's National Trade Council (Camex) voted to send the dispute back to the World Trade Organization. In 2009, the WTO ruled that U.S. subsidies were illegal, awarding Brazil the right to $829 million in retaliation rights.

This year, however, the U.S. Congress passed a new Farm Bill, eliminating traditional subsidies in favor of a new system of crop insurance. Brazil wants the WTO to determine whether the new Farm Bill violates the 2009 cotton ruling. If so, Brazil reserves the right to apply the retaliatory measures. Meanwhile, Brazil will continue seeking a negotiated solution to the problem, according to Foreign Minister Luiz Alberto Figueiredo. “We’re going to continue to negotiate with the U.S. in search of a definitive solution,” Figueiredo said, following the Camex meeting. “Our goal is to find a negotiated solution that optimizes Brazil’s interests in the matter.” He added, “The question of retaliation is still on the table but, at this particular time, it’s more important to verify whether the new U.S. Farm Bill is in compliance or not with the normas established by the WTO cotton decision.”

Brazil posts biggest monthly current account deficit in history. Brazil posted another big current account deficit in January, this time the biggest monthly gap in history. A combination of poor trade performance and rising profit remittances brought a record deficit in January of $11.6 billion, the Central Bank said last week. Heavy imports of consumer products and capital goods in January caused a record monthly trade deficit of $4.06 billion. Profit and dividend remittances in January also contributed to the rising current account gap at $2.5 billion. Meanwhile, Brazilians continued to travel overseas in record numbers, spending $2.1 billion in January. The 12-month current account deficit rose as of January to $81.6 billion from $81.4 billion as of December. As in past months, foreign direct investment of only $5.1 billion was not enough to plug the current account gap.

Government announces “realistic” primary budget surplus goal of 1.9%/GDP. Finance Minister Guido Mantega last week made the long-awaited announcement of the government’s primary budget surplus goal for 2014. The government will seek to lay away R$99 billion, or 1.9% of gross domestic product, from public sector spending as a way to pay down a portion of the national debt. Mantega called the goal “realistic,” saying it will help keep net government debt at a level below 40% of GDP. In 2013, the government set a goal of 2.3% of GDP but managed to save only 1.9%. Last week’s announcement was accompanied by a federal spending freeze to the amount of R$44 billion. If revenues rise unexpectedly through the year, some or all of that amount could be gradually freed up. The freeze will hit hardest on the government’s capital investment budget, including cuts of R$7 billion on federally sponsored projects under the Accelerated Growth Program (PAC) and reductions of R$13.3 billion in so-called earmarks, appropriations for public works proposed by individual members of Congress. Economists were skeptical about the government’s ability to meet the savings target. Energy shortages, because of drought conditions affecting hydroelectric generating stations, could lead to additional spending for natural gas and oil. The soccer World Cup, which Brazil hosts in June and July, will pressure government spending at all levels. October’s general and presidential elections may also pressure spending.

Latest poll shows President Rousseff strong favorite for re-election. A public opinion poll last week showed President Dilma Rousseff strongly positioned ahead of her expected re-election bid in October. The poll was conducted by the MDA Group for the National Transportation Association (CNT). Results follow:

	February	**November, 2013**
Dilma Rousseff (Workers’ Party)	*43.7%*	*43.5%*
Aécio Neves (Social Democratic Party)	*17.0%*	*19.3%*
Eduardo Campos (Socialist Party	*9.9%*	*9.5%*

Source: CNT/MDA

MDA interviwed 2,002 voting-age Brazilians nationwide. The poll showed personal approval for the president's handling of her job at 55.0%, down from 58.8% in November. Political scientists warned that rising dissatisfaction about the economy, crime and social services could harm all incumbents, including the president, by the time the campaign begins in earnest in August (see interview above).

Business News

Investment News:

CPFL Renováveis last week consolidated its position as Brazil's leading renewable energy company by merging with **Dobrevê Energia**. The combined company will have an immediate generating capacity of 1,500 megawatts, representing a little more than 1% of the nation's total capacity. The new company has expansion plans that will boost its capacity to 6,360 megawatts. CPFL Renováveis is a subsidiary of utilities giant CPFL. Under terms of the accord, CPFL will increase the new company's capital by R$200 million and the new company will assume some R$850 million in Dobrevê debt. Owners of Dobrevê will hold a 12.63% stake in the combined firm while CPFL will hold 51.41%.

Company News:

OGX, the oil and gas development company once controlled by struggling investor Eike Batista, presented a new business plan to bankruptcy judges in Rio de Janeiro last week. Creditors will be asked to exchange more than $5.0 billion in debt for equity worth about 65% of the company's total capitalization. Batista, and his EBX holding company, will be reduced to a 5% share. Batista will be freed of a previous obligation to inject some R$1 billion in new funds into the company. OGX, meanwhile, will issue $215 in fresh bonds in order to maintain current operations. Creditors have 30 days to accept or reject the plan.

Brazilian Calendar

Monday, February 24, President Rousseff to meet European Union leaders in Brussels

Wednesday, February 26, Brazilian Central Bank Monetary Policy Committee (Copom) meeting, Brasília

Thursday, February 27, Brazilian Central Bank release of monthly data on lending volume, Brasília

Thursday, February 27, Brazilian Census Bureau (IBGE) release of GDP data for 2013, Rio de Janeiro

Friday, February 28, Brazilian Central Bank release of primary budget surplus figures, Brasília

Indicators

Foreign exchange rate: **R$2.38 = $1.00**

Raw **steel output** fell in January by 1.4% against the same month a year earlier to 2.738 million metric tons, the Brazilian Steel Institute (IABr) said last week. Production fell on a combination of sluggish economic activity and attractive prices for imports. Steel imports rose 11.9% from 2013 to 311,000 metric tons, the institute said.

Brazil's **unemployment** rate rose to 4.8% in January from 4.3% in December but was still lower than the 5.4% posted in January of 2013, the Brazilian Census Bureau (IBGE) said last week. Average salaries paid to registered workers were stable in January against December at R$1,984 per month. But that figure was up 3.6% against January of 2013, the IBGE said. Economists said businesses are holding on to their employees, despite a sluggish economy, in hopes of a recovery later this year. Brazil hosts the soccer World Cup in June, which should boost demand for services. Elections in October should bring higher levels of government spending.