

The Week in Review

ON THE ECONOMIC FRONT

Free Trade: On Wednesday at a meeting in Denver, the president of the Brazilian Confederation of Industry (CNI), Robson Andrade, defended Brazil's position on a free trade agreement with the U.S., leaving the Mercosur block as a second priority.

Brazilian Real: Uncertainties surrounding the next steps of the U.S. Federal Reserve have led to instabilities in the Brazilian Real exchange rate which depreciated to BRL\$2.33 this week. In October, the Brazilian Real was stable between BRL\$2.15 and BRL\$2.20.

Eike Batista: Two weeks after Brazilian businessman Eike Batista filed for bankruptcy recuperation of his oil company OGX, Batista again filed the same type of claim for his shipbuilding company, OSX.

Industry Jobs: The employment rate in the industrial sector decreased by 0.4% from August to September, according to the Brazilian Statistics Agency (IBGE). This is the fifth month in a row for a drop in jobs in the industry.

Retail Sales: Commerce sales remained steady in September with 0.5% growth in comparison to August. Although lower than previous months (0.9% in August and 2.1% in July), retail sales have grown 3.9% for 2013 thus far.

Health Plans: The National Regulatory Agency for Private Health Insurance and Plans (ANS) has decided to suspend 150 health plans from 41 operators due to noncompliance with deadlines and inappropriate care coverage. Amil, recently purchased by UnitedHealth, leads the cancellation rating with 54 suspended plans. Plans can be readmitted into the system when most of the consumers' complaints are fixed.

Brazilian Students in U.S.: The number of Brazilian students studying in the U.S. in the 2012/2013 academic year rose by 20.4%. Brazil ranked 11th highest in the world for the number of students it sends to the U.S., according to the Open Doors Data of the Institute of International Education. For that period, Brazilians represented 1.3% of foreign students in the United States. China, leading the ranking, represents 28.7%, and India 11.8%. The full study is available [here](#).

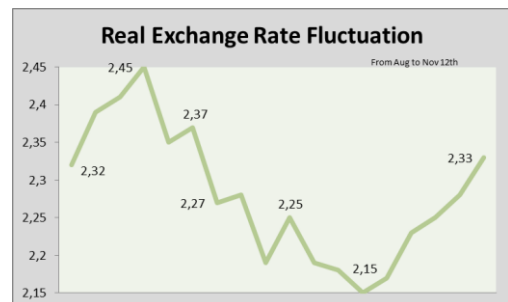
ON THE POLITICAL FRONT

ISS Scandal: Last week, a scandal surrounding former mayor of São Paulo Gilberto Kassab and tax officers was made public by numerous media outlets. According to reports, construction companies paid off tax officers in order to get reductions in the total amount of local services tax (ISS) paid. The ISS, a tax charged on services of any nature collected by municipalities, is currently being discussed on the federal level due to the creation of the so-called fiscal war among cities. It is estimated that BRL\$500 million was diverted from the public coffers, resulting in the arrest of six officers. The secretary of the government of Sao Paulo city, Antônio Donato, resigned on Tuesday following allegations of contacts with those involved in the scandal.

PT Party: The PT party held its national elections on Sunday and reelected its President, state representative Rui Falcão, who is likely to coordinate President Rousseff's reelection campaign next year.

Mensalão: On Wednesday, the Supreme Court began discussions on the appeals of those convicted by the "Mensalão" trial which convicted, among others, former chief-of-staff José Dirceu of a vote-buying scheme. On the first day of the appeal, the court rejected most appeals and even mandated the immediate arrest of some of those convicted, including Dirceu.

Exhumation: On Wednesday, the exhumation of former President João Goulart, known as Jango, began. In 1964, a coup d'état ousted Jango and commenced a period of military dictatorship which lasted 20 years. The exhumation was praised by the ministers of Justice and Human Rights as a step forward in strengthening Brazil's democracy. Jango went to exile in Uruguay and died 12 years after, supposedly of a heart attack. No autopsy was conducted after his death. Suspicions that Jango was poisoned prompted the debate and justified the exhumation.



Government

Tax Reform

The government introduced Provisional Measure (MP) 627/13 altering important provisions of the Brazilian taxation system. Although direct taxes were not changed, the government has altered basic accounting rules which affect all companies operating in Brazil. The MP alters the following topics:

- » IRPJ/CSLL and PIS/COFINS: Alters ancillary obligations, the calculation for real and presumed profit for the income tax for companies (IRPJ), social contribution on net profit (CSLL), and company billing and revenue (PIS/COFINS).
- » RTT: Revokes the Taxation Transition Regime (RTT) starting in 2015.
- » Affiliates and controlled companies: Establishes the possibility of tax deductions for companies that have paid taxes abroad.
- » Premium: Alters the calculation of the premium generated in merger and acquisition operations.
- » REFIS: Extends benefits for companies and banks participating in the Program of Fiscal Recuperation (REFIS).

The MP does not propose any alteration to state and local taxes, such as ICMS (VAT State tax) or ISS (services tax), currently also being discussed at the federal level.

Starting today, the MP is effective for a period of 60 days, extendable for the same period. The bill is open for amendment until next Monday, November 19th.

Services Tax (ISS)

With discussions on the reform of the ICMS (State VAT tax) on hold, the Senate Committee on Economic Affairs approved a [Clean Bill](#) for [PLS 386/12](#) which establishes a minimum rate of two percent for the local services tax (ISS). This tax has been under intense scrutiny, not only due to the construction company scandal that recently broke in São Paulo but also because it has been creating discrepancies in its applicability by different cities for years. Because cities grant different exemptions, businesses have incentives to move operations to locations with lower rates, usually small cities, thereby reducing tax collection in large cities. The two percent minimum is already constitutionally mandatory. However, municipalities, in order to attract business investments, have found loopholes in the complex Brazilian taxation system that circumvents that rule.

Internet Legal Framework

Minister of Justice José Eduardo Cardozo stated that the government is willing to negotiate issues of the Internet Legal Framework (*Marco Civil da Internet*) with the House Representatives, but net neutrality is nonnegotiable. Due to the lack of consensus, the leader of the opposition party, PSDB, affirmed that no votes would be taking place this week in the House.

Consumer Rights

The temporary committee analyzing the modernization and reform of the Brazilian Consumer Defense Code (CDC) is expecting the vote of its [final report](#) on Tuesday, November 19th. Important points added in the report include:

- » Restriction to infant advertising;
- » Fourteen to 30 days allowed to return purchases;
- » Doubling the timeframe for complaints of products with defects;
- » Consumer data protection;
- » Judicial power to local consumer defense agencies (PROCON).

Following a vote in committee, the bill goes to the floor.



Environment

Agriculture Cooperation

On Monday, the Brazilian Agency of Cooperation (ABC) and U.S. Ambassador to Brazil Liliana Ayalde signed a memorandum of understanding between Brazil and the U.S. on agriculture cooperation. The goal of the MOU is to facilitate cooperation and exchange of agricultural technologies in order to promote food safety, economic development, and agricultural sustainability. Both countries already conduct numerous trilateral cooperation projects in the areas of agriculture, food security, health, and public finances in Saint Tome and Principe, Mozambique, Honduras, and El Salvador.

Energy

Pre-Salt Round

Sen. Roberto Requião (PMDB) introduced the Oversight and Control Proposal (PFC) 2/13 on Monday proposing that the Senate Committee on Environment check for possible illegalities in the RFP related to the Libra field bidding round, held on October 21st, the first in a pre-salt area. The author's justification surrounds the low minimum percent in "profit oil" demanded by the RFP of 41.65% to be given to the government. Oil export countries normally ask for 80%, according to the author. The president of the committee will designate a rapporteur to the PFC which will need to develop a methodology for the oversight procedure. If the plan is approved, the rapporteur will conduct its implementation.

The Pulse

Brazil Council Advocacy Mission 2014

BUSBC led a group of 27 of its member companies on its Annual Advocacy Mission to Brasilia last week from November 4-7. The main purpose of the mission was to advance the Council's top priorities of visa-free entry and the start of negotiations for a trade agreement and a bilateral tax treaty, and to convey the need to push the bilateral commercial relationship further. The presence of the group was noted in Brazilian press and reaffirmed the U.S. business community's support for the bilateral relationship at a time when diplomatic relations are strained between the two countries.

Numerous sectors were represented in the group including defense, pharmaceutical, manufacturing, consumer goods, financial services, consulting, and oil and gas. Former US Ambassador and Boeing Brazil President Donna Hrinak led the delegation.

On the first day of the mission, the group met with the Brazil Section of the Council at the National Confederation of Industry (CNI). That same day, PATRI presented its view of the current political and economic scenario and the outlook for 2014 and 2015. PATRI's view, in a nutshell, is that despite decreasing popularity, current President Rousseff still has the best chance of winning next year's presidential election. Furthermore, the President elected in 2015 will have to make fiscal and structural adjustments in order to put the government's finances back on track. Although a deterioration of the fiscal account is apparent, PATRI does not believe the economic fundamentals and finances of the Brazilian government have been undermined. Partner AMCHAM-Brazil, U.S. Embassy officials, and BUSBC member Mattos Filho also met the group during the mission.

The second and third days in Brasilia included meetings with the Ministry of Finance; the Ministry of Science, Technology, and Innovation; the Ministry of Development, Industry and Commerce; the Health Surveillance Agency (ANVISA); the Ministry of Mines and Energy; the Ministry of Foreign Relations; the Ministry of Planning; the Ministry of Defense; and the Federal Police. Some of the meetings were business oriented (e.g., Federal Police, ANVISA, and Ministry of Planning) while others were focused on BUSBC key policy priorities. Although the delegation was well received in all of the meetings, the tension in the U.S.-Brazil *political* relationship was noticeable at times. BUSBC also raised two current issues of concern to BUSBC members during the trip: the recent amendments to the Internet Legal Framework bill, and the possible retaliation by the Brazilian government against the United States related to the WTO cotton dispute.

In Congress, the group met with Representatives Mendes Thame, Luiz Haully, Alexandre Roso, Efraim Filho, and Duarte Nogueira. Rep. Haully, former president of the House's working group on Brazil-U.S. relations, emphasized the desire of the Brazilian Congress to deepen relations with the United States. Members of Congress also noted that the downturn the bilateral relationship has taken recently represents



a disagreement between the two presidents rather than the two countries or the two parliaments.

On the subject of possible retaliation in the WTO cotton case, representatives from the Ministry of Development, Industry, and Commerce have called for the continuation of monthly payments to the Brazilian Cotton Institute by the U.S. government. Furthermore, Rep. Haully stated that discussion of possible retaliation is still ongoing, and that the list of impacted products is still not final. CAMEX's deadline for a decision is November 30th.

All attending companies expressed their long-term interest in the Brazilian market. Most companies already have a long-standing presence in the country. Overall, the visit was extremely positive for private companies who had an opportunity to meet with Brazilian representatives and gain an understanding of the government's short and medium term plans for a variety of sectors and how they may affect investments in Brazil.

