

**POLICY
MONITOR**

November 18 – 22, 2013

The Week in Review

ON THE ECONOMIC FRONT

R&D Ranking: This week the European Commission released the [2013 EU Industrial R&D Investment Scoreboard](#) with economic and financial data for the world's top 2000 companies ranked by their investments in research and development (R&D). Brazilian companies on the list are Vale (98th), Petrobras (118th), Embraer (391st), TOTVS (992nd), CPFL Energy (1030th), WEG (1118th), Braskem (1391st) and Itaútec (1831st).

Consumer Default: After a four-month consecutive drop, consumer default rates registered a 3.7% rise in October as compared to the previous month, according to the consultancy firm Serasa Experian. Analysts affirm that the figure is not a drop in consumer defaults, but it was due to Children's Day (October 12th) and the fact that October has more working days than September.

Inflation: The mid-November inflation rate measured by the IPCA-15 index registered an increase of 0.57%, which was seen positively by economists who believe inflation this year can be lower than the 5.84% figure registered in 2012. Clothing, food, and beverages all had the highest increase. For the year, the rate totals 5.06%.

Fuel Readjustment: As inflation remains lower than expected, the Central Bank continues discussions on the new formula for the readjustment of gas prices with the Administration and Petrobras. Therefore, the announcement expected for November 22nd likely will not compromise inflation.

Tax Collection: According to the Brazilian Federal Revenue (RFB), tax collection registered approximately BRL\$ 101 billion in October - a 5.43% increase since October 2012. Year to date, the total stands at BRL\$ 907.4 billion. Despite the increase signaling a slight economic recovery, the Administration's fiscal goal is still not ensured. Answering to concerns about a possible lack of fiscal responsibility, the President alongside the party leaders of Congress signed a Fiscal Responsibility Pact on Tuesday. The document states that the leaders agree not to approve any measure that implies higher expenditures or reductions in budgetary revenues.

World's top 10 companies ranked by R&D

Name	Country	R&D 2012 (Euro million)
VOLKSWAGEN	Germany	9515.0
SAMSUNG ELECTRONICS	South Korea	8344.7
MICROSOFT	USA	7890.7
INTEL	USA	7691.4
TOYOTA MOTOR	Japan	7070.9
ROCHE	Switzerland	7007.8
NOVARTIS	Switzerland	6922.8
MERCK US	USA	5995.9
JOHNSON & JOHNSON	USA	5809.5
PFIZER	USA	5740.5

Source: European Commission

ON THE POLITICAL FRONT

Mensalão: Last Friday during the national holiday, the Supreme Court issued arrest warrants for some of those convicted in the Mensalão scandal. Former Chief of Staff and president of the PT party, José Dirceu, and José Genoíno were arrested and taken to the Papuda prison in Brasília. Former director of Bank of Brazil Henrique Pizzoloto, also among those sentenced to jail, fled Brazil and is now in Italy. Pizzoloto drove to Paraguay and had his Italian passport reissued by the embassy. The director is now on Interpol's wanted list.

Rousseff and Business Leaders: In the last few weeks, President Rousseff has held meetings with business leaders from some of Brazil's biggest companies including BRF Brasil Foods, Odebrecht, Camargo Corrêa, and Andrade Gutierrez. This change in the relationship with the private sector is an effort to break with the government's isolationist image, with an eye towards the 2014 elections.

Presidential Poll: IBOPE's latest poll shows President Rousseff has gained a slight advantage over her challengers. If the election were held today, President Rousseff would receive 43% of the votes, compared to 14% for Aécio Neves (PSDB) and 7% for Eduardo Campos, according to the poll. Regardless, the president still has not regained her previous popularity, with only 39% of the population considering her government good or great and 24% considering it bad or awful.

Electoral Supreme Court: Minister Judge of the Supreme Court (STF) Marco Aurélio de Mello was nominated as President of the Electoral Supreme Court (TSE) for the third time, replacing Minister Judge Cármen Lúcia, who held the position for two years. Mello will hold the position until May 2014, so he will not be TSE president during the 2014 elections. Minister Judge Dias Toffoli, who was nominated to the Supreme Court during former President Lula's administration, will replace him.



Government

MP 627/13 – Tax reform

Provisional Measure (MP) 627/13, which revokes the Taxation Transition Regime (RTT), establishes new rules on profits of Brazilian affiliates and controlled companies and extends benefits for companies and banks participating in the Program of Fiscal Recuperation (REFIS), among other provisions outlined in last week's *Policy Monitor*. The MP received a total of 513 amendments.

Rep. Eduardo Cunha, leader of the PMDB party in the House, was nominated rapporteur of the MP on the joint commission which will analyze the amendments. It has been reported that the Ministry of Finance made a deal with Cunha not to alter the MP in the House—an extremely hard feat taking into account the number of amendments introduced already and companies' interests in the measure.

The MP is valid until April 21st, 2014. If not voted on and approved by both chambers by then, the MP loses validity.

Political Reform

On Wednesday, the Senate approved bill 441/12 which makes changes to the Brazilian electoral law (Law 9.504/97) with the intention of reducing expenditures on electoral campaigns. Some of the changes resulting from the so-called *mini electoral reform* are:

- Granting of permission for candidates to participate in interviews, programs, and debates before the official electoral campaign period;
- Making hiring individuals who publish offensive messages about other candidates an electoral crime;

The bill maintains that public concessionaries are not permitted to donate to campaigns. The President has 15 days to sign the bill into law or veto it.

Internet Legal Framework

In a meeting with congressional representatives held on Tuesday, President Rousseff agreed to talk to members of Congress next Monday about the Internet Legal Framework (Marco Civil da Internet) which has been blocking the House agenda since mid-October. Newspapers have reported that one issue likely to be removed from the bill is the article mandating that companies install datacenters in Brazil to house information on Brazilians.

Energy

Biodiesel Auction

The National Agency for Oil, Gas and Biofuel (ANP) announced the 34th biodiesel auction to acquire biodiesel from refineries and importers to fulfill the mandatory minimum 5% percent of of biodiesel in the diesel oil. Comments can be sent to ANP until November 25th.

Health

Good Manufacturing Practices

Last Thursday, the National Agency for Health Surveillance (ANVISA) launched a public consultation (RFP 50/2013) on a draft resolution about the requirements for Good Manufacturing Practices in the registration of health products. Companies have 30 days to send comments and suggestions about the new resolution.



Tax and Investments

Reintegra

The Special Regime for the Reinstatement of Taxes for Exporters (Reintegra) created in 2011 expires on December, 31st. The regime gives exporters of manufactured goods a tax refund for their exports to be used either as a credit on corporate tax or as cash payment.

Previously extended, the private sector is pledging further renewal of Reintegra. On Tuesday, members of the ministries of Finance and Development, Industry, and Foreign Trade affirmed during a public hearing in the House that the probability of an extension is low due fiscal constraints; however, the issue is still under discussion.

Small and Medium Enterprises

Minister of the Secretariat of Small and Medium Enterprises Guilherme Afif and Director of SERPRO Marcos Mazoni signed a contract for the creation of the homepage "Simple Enterprise." The homepage aims to reduce the bureaucratic process of opening and closing SMEs by establishing a single online procedure. The government's expectation is that the average time to open a company will drop from 119 to five days. The contract establishes that the website be created in six months and will be in full service in one year.

Trade and Services

The first edition of the National Atlas of Trade and Services was launched during the Brazilian Symposium on Public Policy for Trade and Services (SIMBRACS), held last week in Brasília. The publication aims to address the lack of reliable economic information needed to guide public policy and private investment in the service sector.

The Atlas was created by the Secretariat of Trade and Services of the Ministry of Development, Industry and Foreign Trade (MDIC) in partnership with the Brazilian Institute of Geography and Statistics (IBGE), the Institute of Applied Economic Research (IPEA), and the Brazilian Micro and Small Business Support Service (Sebrae).

Infrastructure

Airport Concessions

At least five consortiums have presented proposals for the privatization bids of the international airports of Rio de Janeiro (Galeão) and Belo Horizonte (Confins). The five groups were: Odebrecht Transport (Brasil)/Changi (Cingapura); CCR (Brasil)/Flughafen Zürich AG (Suíça) e Flughafen Munchen (Alemanha); Carioca Engenharia (Brasil)/ ADP Airport (França) e Schipol (Holanda); Queiroz Galvão (Brasil)/Ferrovia (Espanha) and Ecorodovias - Invepar (Brasil)/Fraport (Alemanha). According to reports, at least four of the groups will participate in both bidding rounds.

Before the RFP was published, companies were unsure about the economic viability of managing the airport of Confins. The minimum bid for Confins was BRL\$1.1 billion and BRL\$4.8 bi for Galeão.

The National Agency of Civil Aviation (ANAC) had until Thursday to analyze the proposals and respond as to whether all companies are able to participate in the second phase of biddings being held on Friday morning.



The Pulse

The President's online presence

President Rousseff and her team of advisors have been making a special effort to increase the president's online presence. In part, her return to Twitter and the creation of a Facebook and Instagram account are a response to the success former Environment Minister Marina Silva had in gathering signatures of the youth in her attempt to launch the Sustainability Network party earlier this year.

Her online presence has served her effort to strengthen her position vis-à-vis the debate on creating guidelines and rules around the Internet. Her Twitter account, for example, has been dead since December 2010 and was relaunched this September, a timely return considering that allegations of N.S.A. spying on the President were released in late August and a constitutional urgency placed on the Internet Legal Framework bill was introduced around the 10th of the same month.



The President's social presence has been led by the following team:

- João Santana – Part of the President's "hard core", Santana is the party's marketer and directed the President's first round campaign (2010), as well as former President Lula's (2006) and Hugo Chavez/Nicolas Maduro's campaigns in Venezuela (2012).
- Minister Helena Chagas – Minister of Social Communication, Chagas took office in 2011. A journalist who has worked for numerous newspapers and television stations, she was the press coordinator for President Rousseff's campaign in 2010.
- Valdir Simão – Coordinator of the president's digital cabinet, Simão has a long history within the PT party, including president of the social security institute (INSS) during Lula's presidency. He was also under consideration to take over a post as counselor for the National Agency of Telecommunications (ANATEL).
- Thomas Traumann – Spokesperson for the government, Traumann is officially the coordinator of Rousseff's digital agenda.
- Anderson Dorneles – Special advisor to the President, Dorneles is known for handling the president's phone and tablets and managing unwanted contacts.



- Rafael Barroso – A political scientist, Barroso used to coordinate social media for the governor of the Federal District. He is part of the youth wing of PT and is managing the newly created Facebook page.

