

The Week in Review

ON THE ECONOMIC FRONT

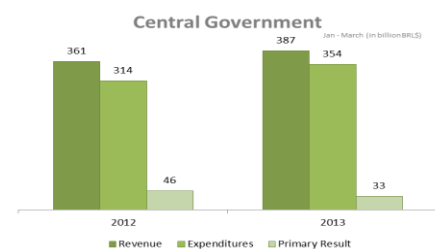
Brazilian Real: The Brazilian Real has slowly begun to recover following last week's peak of the exchange rate. The Real has been under BRL\$ 2.20 to the dollar since Tuesday. Minister of Finance Guido Mantega explained during a hearing at the House that the devaluation of the Real and others emerging countries' currencies are a consequence of the appreciation of the dollar and a hike in U.S. bonds rates which provoked inflow of capital into the country.

Tax Collection: Tax collection for May reached BRL\$87.8 billion—a 5.8% real-term increase from May 2012. The government's forecast for total tax collection in the year is still to increase by 3.5% from last year.

Strike Announcement: Truck drivers have announced a 72-hour strike for next week—Monday July 1st through Thursday July 4th.

FDI: Brazil ranked 4th in FDI inflows in 2012, behind the U.S., China and Hong Kong, according to the [World Investment Report 2013](#) released on Wednesday by United Nation Conference on Trade and Development (UNCTAD). For the first time, developing countries received a larger FDI inflow than developed ones. FDI flows totaled US\$ 1.35 trillion.

Brazil-India Relations: Foreign Trade Secretary Tatiana Prazeres met with the Ambassador to India in Brazil to discuss enlarging the current Mercosur-India trade agreement. The parties maintain a trade agreement since 2009 that establishes preferential tariffs for agricultural, fuels, chemicals, rubber, capital goods, among others.



ON THE POLITICAL FRONT

Campaign Financing: The second round of debates regarding campaign financing was held at the Supreme Court on Wednesday. The debate is part of the preparatory rounds for the constitutionality discussion regarding Laws 9.906/95 and 9.504/97 addressing political parties and elections. The majority of attendees defended a more strict regulation and oversight of donations.

Court Arrest: The Supreme Court issued an arrest warrant for Congressman Natan Donadon for the crime of corruption against the public administration. This is the first warrant issued by the Court since the establishment of the 1988 Constitution. Under pressure, Congress has announced that it will debate his termination from office soon. On the same day, the House's Constitution and Justice Committee approved a bill which forbids closed-votes on termination debates. If approved according to the Speaker of the House's plan, by early July, Donadon might be the first Congressman to be subjected by the new law.

Protests: Political protests across the country have decreased significantly since last Friday. Minor manifestations were held in cities currently hosting the Confederation's Cup, but larger cities as São Paulo, have not seen any major protests since the reduction of the public transportation fare hikes.

Oil Royalties: On late Tuesday, the House approved an amended version of President Rousseff's bill which provided that 75% of the oil revenues be destined to education and 25% to health. The original bill determined that 100% of the revenues would go into education. The bill is valid for all contracts whose commercialization declaration was given by ANP after December of 2012 under the concession and production sharing regimes. It must now be voted by the Senate before heading for presidential sanction.

PEC 37: The House rejected by 430 votes against 7 in favor the constitutional amendment bill (PEC) which removed from the Public Prosecutor's Office (*Ministério Público*) the power to conduct criminal investigations. The issue was a major sticking point of last week's street protests who called it the "impunity PEC".

The Senate: Following the House, the Senate approved on Wednesday bill 204/11 which classifies passive and active corruption as a felony, one of the points raised by President Rousseff on her statement on Monday. The Chamber also approved the new division of the State's Participation Fund (FPE). Currently the Constitution establishes that 21.5% of income on industrialized products taxes will be given to States.



Government

Rousseff's Five Pacts

Following nationwide protests across the country, President Rousseff met with the governors and mayors of all 27 states and capitals to discuss a series of comprehensive reforms. The President committed to taking five pacts:

- » Fiscal Responsibility: Rousseff emphasized the need for fiscal responsibility to ensure the stability of the economy and the control of inflation.
- » Political Reform: The most controversial aspect was the proposal of a nationwide plebiscite to authorize the establishment of a constitutional convention to reform the Brazilian political system. The President also committed to making corruption a felony.
- » Health: Commitment to bring foreign doctors into the country with exclusive dedication to the public health system.
- » Urban Mobility Plan: Pact to improve the quality of public transportation in major cities and to reduce costs by increasing tax reliefs on diesel and electric energy.
- » Education: Pact to destine 100% of the post-salt and 50% of the pre-salt oil royalties to education.

Opposition parties and Supreme Court Ministers have criticized the President's move stating that establishing a constitutional convention is unfeasible and that the pacts are political and unfeasible.

Regulatory Agencies

Congressman Salvador Zimbaldi (PDT/SP) introduced [Bill 5810/13](#) demanding more transparency in the decision-making process of regulatory agencies. According to the bill, all decision-making acts must be made public and be published on the website in five days. Further, all voting matters must be released five business days before the actual vote. Among other things, the bill also mandates that all deliberative meetings be displayed online.

Next steps have not yet been defined by the Speaker of the House, but the bill might be analyzed under a conclusive process, not requiring the full floor's approval.

Priority Agenda

The President of the Senate Renan Calheiros and the Speaker of the House Henrique Alves published a list of bills in Congress awaiting discussions related to the demands made by public protesters. Some of the bills on this list will be given vote priority and include:

- » Bill 39/13 on the responsibility of companies for conducting acts against the public administration;
- » Bill 2126/11 on the creation of the new Regulatory Framework for the Internet (Marco Civil da Internet);
- » Bill 11/11 on altering the process for provisional measures (MPs).

If Congress follows through on its words, some of these bills may be voted sooner than expected. Additionally, Congress may cancel its recess scheduled for the month of July. However, no official announcement on this has been yet.

What's Going On?

The **spotlight has been on Brazil** following the past few weeks of protests.

Policy Monitor defended and continues to defend that despite a few bumps on the road, the train will not derail.

Rousseff showed a great deal of pragmatism on Friday and Monday when she came forth with the Five Pacts. **Some of what she promised is unachievable**, such as the constitutional convention that has already been discarded. **Others measures are already approved**, such as the oil royalties for education and the classification of corruption as a felony.

Congress has also responded to the pressure of public opinion and rejected a constitutional amendment (PEC 37) that was certain to be approved a few days ago.

What we will be seeing in the next 18 months before the 2014 elections is a **shift in focus from the economy to the institutional and political arenas**. Public services, government transparency and the use of resources will be deciding factors in the presidential election, **which, as of now, is no longer set on the reelection of President Rousseff**.

Few drastic economic or fiscal reforms are to be expected, most importantly because they do not show short-term results. Businesses, however, can be at peace that unreasonable policies are not in the horizon. Some key government players may or may not leave, but that will not change the fact that **President Rousseff is still running the show**.

Bumps will continue, but it is in no one's interest – politicians or the public – to crash this plane.



Tax & Investments

Piracy

The House's Economic Development, Industry and Commerce Committee will meet on July 11 to debate the government and private sector's stance on prevention and repression of piracy. Invited members include the Government Relations Manager of the American Chamber of Commerce for Brazil in Brazil, Felipe Magrim, and Frank Caramuru, legal representative of the Business Software Alliance (BSA).

ICMS Reform

The National Council on Fiscal Policy (CONFAZ) met on Tuesday and defined the draft of the agreement to be taken to states regarding the reform of the ICMS tax. Points that were decided were:

- » The ICMS aliquot for goods produced in the Free-Zone of Manaus will be of 10% with the exception of computer goods which will be set at 7%;
- » Fiscal incentives will be valid until 2028 for the industry, 2016 for *in natura* agro-livestock goods, 2021 for airport and road infrastructure and 2014 for commerce;
- » Operations with gas will have a rate of 10%.

If approved by all 27 governors, the final agreement will be sent to Congress to be approved.

Import Taxes Reduction

The Foreign Trade Board (CAMEX) published [Resolution 45/13](#) which alters to 2% the import tax on a list of new telecommunications and computer-related goods up to December 2014.

Industrial Policy

On Monday, the Ministry of Development, Industry and Foreign Trade issued an [updated document](#) of the Bigger Brazil (Brasil Maior) Plan with measures under discussion to improve the competitiveness of 19 sectors, including oil & gas, mining, renewable energy, paper, chemicals, cosmetics, health, defense, services and others.

Energy & Environment

First Pre-Salt Round

The Ministry of Mines and Energy published, last Friday, [Ordinance 218/13](#) establishing the procedures for the first pre-salt bidding round to be held in October. The round, which will auction area Libra, in the Santos basin, will be under the production sharing regime and based on Law 12.351/10. The National Agency of Oil, Gas and Biofuels (ANP) will draft the announcement and the requirements for interested companies to be approved by the Ministry. All participants must be qualified as "Operator A" by ANP and the winner will be the company that presents larger oil surplus for the Union.

Health

ANVISA Performance Goals

On Thursday, the National Health Surveillance Agency (ANVISA) published [Ordinance 1.058/2013](#) establishing its institutional performance goals for the 1st of July 2013 to 30th of June 2014. Some of them are:

- » Grant or reject import processes within 5 working days;
- » Reduce the analysis time of petitions for registration of strategic medication;
- » Publish 100% of requests for granting licenses within 60 days;
- » Analyze 1.613 registration processes under the General Management of Medicines in 2013;
- » Issue the first analyses of petitions for registration of healthcare products within 90 days.



The Pulse

Aécio Neves: How far can the opposition's presidential candidate go?

Senator Aécio Neves, recently elected President of the Brazilian Social Democratic Party (PSDB), is the main presidential contender to President Rousseff. Neves stated that he will only officially discuss his candidacy in 2014, because the time now is to oversee what the government is doing.

In today's Congress, there are 23 parties represented, 4 of which consider themselves as opposition (PSDB, PPS, DEM and PSOL). PSDB holds the fourth largest caucus in Congress and has been traditionally the strongest opposition party to PT. As senator for Minas Gerais, Neves tries to strengthen the opposition's role in Congress, strongly criticizing growing inflation and infrastructure bottlenecks.

Aécio Neves has a strong asset: his successful two-term administration as Governor of Minas Gerais, the country's second largest Electoral College. The state went through a "management shock" to overcome deficits, having recovered its fiscal accounts. Very popular in his state, Aécio Neves also holds a good standing within his party.

President Rousseff contenders with strong regional electoral power, Neves in Minas Gerais and Eduardo Campos (PSB) in Pernambuco, are closer to the business community, have a very pro-business speech and business-like management style. President Rousseff, on the other hand, is known for not being a good communicator--she has met with less than 50 businessmen individually since taking office. Plus, she has maintained a weak relation with her own Congress which has led to tremendous failures over the past few weeks.

According to *Datafolha's* latest opinion poll on June 6, Aécio Neves was the sole candidate whose vote intentions grew--from 10% to 14%-- maintaining a firm 3rd spot. Neves is approaching the former Minister of Environment Marina Silva, currently in second place with 16%. President Rousseff's vote intentions fell 7% points, but she is still ahead with 51% and, in last place, is Eduardo Campos with only 6%. These results, however, do not account for the possible fall of Rousseff following numerous street protests across the country.

Neves' main difficulty will be getting his name known across the country. Despite being popular in Minas Gerais and known in the states of São Paulo and Rio de Janeiro, he is still practically unknown in the North and Northeast regions, which have been traditionally PT territory. As part of his strategy, Neves intends to travel throughout the country to build an agenda with popular suggestions, getting closer to the low income population in an attempt to end the elitist image of his party.

Despite struggles, he has a good chance of jumping upfront with President Rousseff. Not only does he have former President Fernando Henrique Cardoso's support, but he also did not just undergo the process the President had to endure with protests last week. Finally, every election since 1994 was defined between PT and PSDB, bringing the odds of history to his side, at least to dispute an eventual 2nd round.



Aécio Neves, Senator for Minas Gerais

Birth Date: 03/10/1960

Place of birth: Belo Horizonte (MG)

Education: Economics.

Party affiliation: Brazilian Social Democracy Party (PSDB)

Elective offices:

- » 1987-2003: Federal Representative of Minas Gerais
- » 2003-2010: Governor of Minas Gerais
- » 2011-2019: Senator for Minas Gerais

Aécio Neves is the grandson of Tancredo Neves, first Brazilian President after the military dictatorship in 1986. Neves is known for his skills as a political articulator. Currently, the Senator is the national President of the PSDB party.

