Brazil-U.S. Business Council

PATRI Public Affairs

POLICY MONITOR

August 12 – 16, 2013

The Week in Review

ON THE ECONOMIC FRONT

Retail: The Brazilian Institute of Retail Executives (Ibevar) expects that retail sales will grow, at maximum, by 2% in 2013 in comparison to 8% in 2012. Increasing fear of unemployment is the main reason containing the growth of retail sales. The poll conducted by the Institute's President shows that whereas in the first semester of the year only 17.3% were afraid of losing their jobs, 19.6% are in this trimester.

Profits: Brazilian airline Gol recorded BRL$433 million loss from April to June of 2013. This is the 6th semester in a row the airline did not make a profit, mostly due to the appreciation of the dollar and high costs of fuel. On the other hand, the Bank of Brazil (BB) announced a BRL$10 billion profit for the first semester of the year, the largest in the history of a Brazilian open capital bank. BB was followed by Itaú Unibanco which totaled BRL$7.23 billion in profits.

Hotels: A survey conducted by Brazilian Company of Tourism (Embratur) showed that daily rates being charged at hotels in Brazil for the World Cup are 583% higher than those charged in other countries. Whereas an average rate in Rio de Janeiro is US$461, one in Johannesburg is US$ 200 and US$300 in Berlin, capitals of the two last countries to host the event.

Airports: The bids for the privatization of the Rio de Janeiro and Belo Horizonte airports will be held on October 31. The RFPs are estimated to be released by the National Agency of Civil Aviation (ANAC) by September 16. The minimum bid and predicted investments for the Galeão in Rio de Janeiro are BRL$4.65 and BRL$5.8 billion for a 25 year period.

Food Giant: Abilio Diniz, President of the Board of food giant BRF announced a restructuring process of the company which includes a new global CEO and Brazilian president and the dismissal of 1% of the company's employees. Accrued from the merger of Perdigão and Sadia, BRF has a 72% market share in pasta, 64% in pizza, and 59% in butter, according to the company's annual report.

ON THE POLITICAL FRONT

Secretary of State Visit: U.S. Secretary of State John Kerry met with President Rousseff and Foreign Relations Minister Antonio Patriota on Tuesday. According to the Minister, the two countries have been discussing the inclusion of Brazil in the global entry program, and progress has been satisfactory and encouraging. If there were to be any results, they could be made public during Rousseff's trip to Washington in October. The elimination of the visa requirement, however, is on a longer horizon, according to Patriota.

Secretary of State Visit II: Despite a positive announcement regarding visa requirements, the visit was surrounded by the discussion of allegations of N.S.A. espionage practices in Brazil. Patriota warned about the weakening of mutual trust and stated that this represents a new challenge to the bilateral relationship.

Approval Rating: The *Datafolha* poll released on Saturday showed Rousseff's approval rating improving slightly by 6 points, after a 27% drop in June. *See more below.*

Cartel: The Governor of São Paulo has publicly stated that the state will sue German company Siemens for its involvement in an alleged cartel scheme in the bids of the São Paulo state and city metros. Former President of Siemens, Adilson Primo, denied wrongdoings in the company's contracts with the government to the Public Prosecutor's Office. Primo, who was in charge of the company during the period of the scandal, claims that all procedures went through internal audit and no illegalities were found.

"Mensalão": Appeals by those convicted in the "Mensalão" scandal trial have started being analyzed by the Supreme Court on Wednesday. The first cases debated were rejected by near consensus of the judges, including former House Representative Valdemar Costa Neto (PR) condemned to 7 years in semi-open regime.

Duty Free: The Senate approved bill 355/12 which increases the amount of duty free shopping allowed at Brazilian airports from US$500 to US$1,200. The bill must still be approved by the House. The US$500 limit has been in place for 30 years.

India-Mercosur: The Ministry of Development, Industry, and Commerce opened to comments a public consultation to debate the strengthening of the Preferential Trade Agreement between Mercosur and India. Companies have 45 days to submit contributions via email at mercosul.india@mdic.gov.br.

Government

Budget

On Tuesday, the House approved with 378 votes in favor and 48 against on the first round a constitutional amendment bill 565/06 titled Authoritative Budget. Unlike the name, however, the bill only mandates the budgetary execution of individual amendments made by congress members.

Members of Congress are allowed to present up to 25 individual amendments to the budget law each term. Normally, the Executive branch, responsible for finalizing the budget, grants funds for the amendments to members in order to gain political support. Originally, however, the amendments served as a toll for Congress to participate in the development of the country's budget, but the practice has been distorted, causing numerous corruption scandals.

The bill, a flagship of House President Henrique Eduardo Alves (PMDB), mandates that individual amendments must be distributed isonomically and executed up to 1% of the net current revenue. In 2013, the total amount spent on amendments was of BRL$27 million. One percent of the 2013 budget, however, represents BRL$ 6.7 billion, a significant increase in expenditures by the administration.

The Bill represents a big loss for the Executive which loses an important bargaining tool with Congress and an important win for members. The bill must still be approved by another round of votes in the House and two rounds of votes in the Senate.

Third Party Hiring

The rapporteur, Arthur Maia (PMDB), presented his report on bill 4330/04 which establishes new rules for third party hiring. In the new text, accrued from a negotiating commission which gathered union members, the business community, and the federal government, 19 changes were included, such as:

» The proposal is applicable to private, public and mixed companies
» The service provider must present proof of technical quality and economic capacity for the execution

The bill creates some flexibility for the hiring and firing of third party workers, including a subsidiary responsibility for labor and social security obligations for the contracting company. Unions are still dissatisfied with the final result of the bill under the claim that third party workers will have fewer rights than workers under the current Consolidated Labor Laws (CLT). In its response, the private sector claims that CLT is extremely burdensome for business. The vote on the bill has been postponed to September due to a lack of consensus.

Meetings with Public Officials

Senator Eunício Oliveira (PMDB) was designated rapporteur of the Committee on Constitution and Justice for bill 32/13 which establishes rules of conduct for meetings held with public officials including the federal public administration, regulatory agencies, and executive agencies. The bill mandates that meetings between individuals and public officials be held in rooms with video and audio in order to be recorded. Also, requests for meetings must be sent via email or fax with information on the claimant, the issue to be discussed, and reason for urgency. Finally, all meetings must be made public online with a minimum of 72 hours advance notice. The bill has a terminative character and therefore does not need to be voted on the floor of the Senate. After the Committee approves, the bill goes straight to the House.

Health

Sanitary Surveillance

The Executive branch published Decree 8.077/13 which imposes new rules and guidelines for companies subject to sanitary licensing, registration, and control. Main points include:

» Each establishment must have an independent registration
» Registration must be granted within 90 days and will be valid for 5 years
» Advertising and labeling will be subject to ANVISA's regulation in order to avoid wrong and fraudulent information
» Discontinuation of products must be made known to ANVISA six months in advance
» Bulk products can be repackaged if under specific ANVISA norms

On the same day, the National Sanitary Surveillance Agency (ANVISA) published Resolution 39/13 which sets new rules for the concession of Production and Distribution Best Practices Certification. The certification applies to producers of medicines, health products, cosmetics, sanitizing products and pharmaceutical inputs. Among new rules, we highlight:

» Certification analysis will be done chronologically
» Should the establishment have claims, it has 120 days to comply
» Certifications will be valid for 2 years

Energy & Environment

Oil Royalties

The House approved a modified version of bill 323/07 directing 75% of the oil royalties to investments in education and 25% to health. Modified points include:

» Royalties from areas whose commerciality was declared after December 3, 2012 under the concession, onerous assignment and production sharing when exploration happens in a continental platform, territorial sea or exclusive economic zone will be destined exclusively to public education
» 75% of royalties destined exclusively to investments in public education, focused on primary education, and 25% to health, to be regulated later on by Decree
» 50% of Social Fund resources to health and education, until goals established by the National Plan of Education (PNE) are fulfilled

The House removed an amendment added by PMDB that established a minimum of 60% of exceeding oil in the production sharing model for the pre-salts blocks to belong to the Union. The MP must be signed by the President within 15 business days.

Ethanol/Dry Ports

The vote on Provisional Measure (MP) 613/13 on tax reliefs for ethanol and chemical sector was postponed because the leader of the PMDB party, Eduardo Cunha, disagreed with the inclusion of dry ports in the text. The restructuring of the Customs Logistics and Industrial Centers (CLIAs) – dry ports -, originally in MP 612/13, was added to MP 613 after the latter MP lost effect.

The MP 613/13 reduces the PIS/PASEP and COFINS taxes in the import and revenue of the domestic chemical sector and establishes credits for producers or importers of ethanol. The MP loses effect on September 4.

Biofuels

The subcommittee to debate the use of biofuels in Brazil, under the House Committee on Environment and Sustainable Development, will have its first meeting on August 21.

Tax & Investment

Ports

The Secretariat of Ports announced the opening of the public consultation to improve the RFP and leasing contracts for the exploration of areas and infrastructure of the ports of Santos (SP), Belém, Santarém, Vila do Conde, Outeiro e Miramar (PA). Comments can be made online here until September 6 at 5pm. The consultation follows the approval of Law 12.815/13 which established the new regulatory framework for ports in the country.

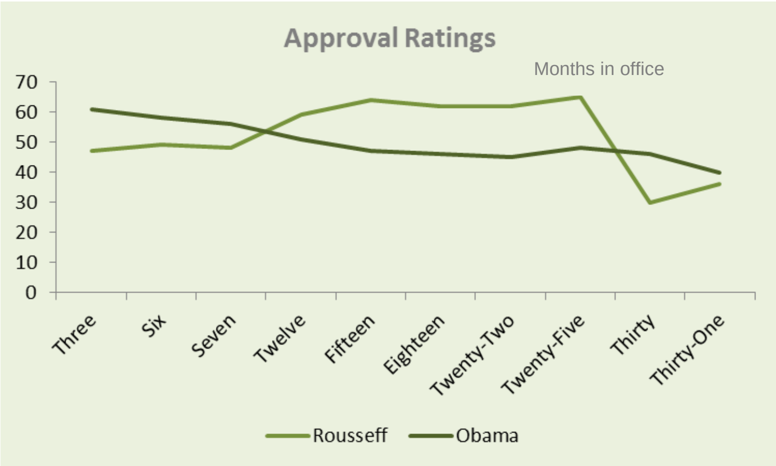
Copyrights

The House of Representatives approved the establishment of a Commission on Parliamentary Inquiry (CPI) to investigate the system of collection and distribution of copyrights currently under the jurisdiction of the Central Office of Collection and Distribution (ECAD). The author of the CPI, Marco Feliciano (PSC) demands explanations on the lack of transparency and oversight of the body. Brazil is the only Latin American country among the 20 largest music markets to not have a structure capable of investigating and overseeing these activities. The CPI will have 20 members and 120 days to conclude its activities. On Thursday, Rousseff signed into law 12.853/13 alterations to the copyrights law 9.610/98. There are currently three other CPIs functioning at the House: Child Labor, Human Trafficking and Sexual exploration of children and teenagers.

The Pulse

The Deterioration of Political Relations: Is Rousseff on her own?

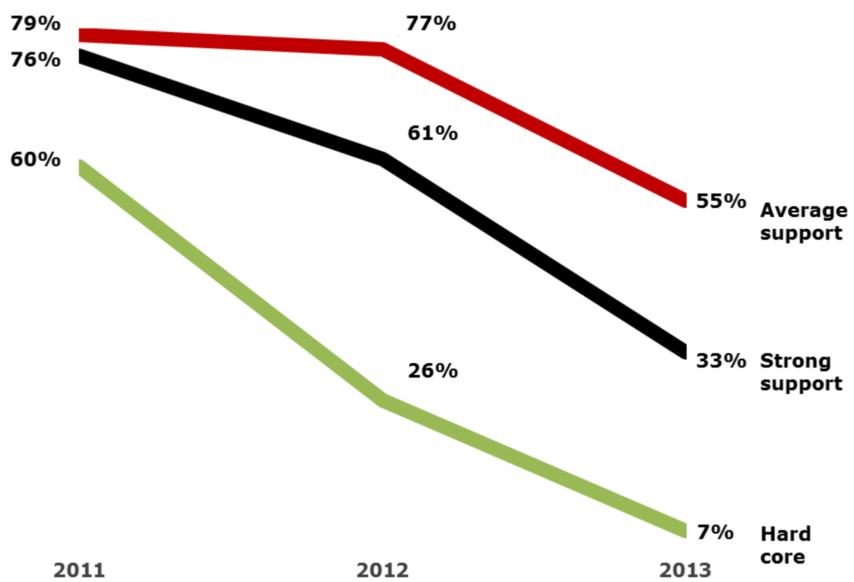
On Saturday, the latest *Datafolha* poll showed that President Dilma Rousseff's approval rating improved slightly following a 27 point drop during June's street protests. **The drop was the largest fall in presidential approval ratings since the government of Fernando Collor de Mello in 1990.** At that time, de Mello confiscated the population's savings and witnessed a 35 point drop from 71% to 36%. In 1992, de Mello was the first Brazilian president to be impeached.



Simultaneously, the President must also deal with a very dissatisfied Congress. Although only having four opposition parties among the 23 currently in Congress, **how often members voted according to the Planalto's guidance has drastically decreased since her first year in office**. Over the past few weeks, the President has been making a special effort to meet with presidents of both chambers and party leaders.

As the *Policy Monitor* has previously reported, numerous ministries have been allotted to parties in PT's support base. More recently, several discharges and new hires have taken place not in the leadership of ministries *per se*, but rather on mid-ranking public servants. The Finance Ministry's Executive-Secretary Nelson Barbosa left the government at the end of May and was followed by the number 2 of the Ministry of Development, Industry and Commerce; Ministry of Communications; and the Executive Office of the President.

This deterioration of political relations between Rousseff, Congress, the Executive Branch, and the population raises doubts about next year's election. Polls do not show her being re-elected on the first round as they did months ago. Due to the lack of strong contenders, however, she is still ahead in most scenarios. That is not to say she will have an easy run next year. **On the contrary, we can expect the 2014 elections to be very similar to the struggle of Barack Obama in the 2012 elections.**



Hard Core: *votes with the government in over 90% of the times*

Strong Support: *votes with the government in over 75% of the times*

Brazil-U.S. Business Council
1615 H Street, NW
20062, Washington, DC
Phone: (202) 463-5729
www.brazilcouncil.org
brazilcouncil@uschamber.com

Brazil-U.S. Business Council

PATRI WASHINGTON, DC
1101 17th St.
NW Suite 1010
Phone: (202) 822-6420
Fax: (202) 822-6423
www.patri.com.br
relgov@patri.com.br