

# The Week in Review

## ON THE ECONOMIC FRONT

**Dollar Appreciation:** The appreciation of the U.S. dollar exchange rate caused headaches for Brazilian monetary authorities when the Real reached BRL\$2.45 to the dollar this week – a 0.78% drop. On another note, President Rousseff, president of the Central Bank Alexandre Tombini, and Finance Minister Guido Mantega are evaluating the possibility of readjusting the price of gas and diesel without negatively impacting inflation. According to the Brazil Center of Infrastructure (CBIE), Brazilian gas prices are 25.3% behind prices in the Gulf of Mexico.

**GDP Growth:** Minister Mantega has once again lowered expected GDP growth for 2013 from 3% to 2.5%.

**Tax Collection:** The Brazilian Revenue Service (RFB) registered BRL\$94.29 billion in tax collections during the month of July. This represents a 0.89% growth in comparison to July 2012, albeit not impressive. Tax relief granted by the Administration is one of the main causes for this poor performance. This year, the Administration abstained from collecting BRL\$43.7 billion in taxes.

**Electronic Trade:** Against expectations of reductions in consumption due to hikes in inflation, the electronic trade sector earned in the first semester a total of BRL\$12.7 billion, 24% more than the same period last year, according to the specialized company E-bit. Fashion and accessories, household appliances and cosmetics were the goods bought the most by online consumers.

**Job Creation:** Data released by the Ministry of Labor and Employment showed that the month of July had the worst performance in the last 10 years with the creation of only 41,000 jobs. In 2013, 907,000 jobs were created, compared to 1.3 million in the same period for 2012. Minister Manoel Dias said that this reflects the current economic moment and that, although small, it is still positive. On the other hand, the Brazilian Statistics Agency (IBGE) announced that the unemployment rate has dropped from 6% to 5.7% in July.

**Bad Checks:** According to Serasa, the credit protection Agency, the number of bad checks (those returned twice) keeps growing. From January to July 2013, these checks represented 2.07% of total checks.

## ON THE POLITICAL FRONT

**President's Week:** To recover her popularity with an eye on next year's presidential election, President Rousseff intensified trips throughout the country, announcing investments on housing, transportation, historical cities and student funding. Negotiations with Congress on overriding of vetoes and meetings to debate the depreciation of the Brazilian real against the dollar were her main concerns this week.

**"Mensalão":** Supreme Court judges have rejected the appeals of four convicted by the Mensalão scandal. The vote-buying scheme held during the first government of former President Lula, was trialed by the Court in the beginning of this year. The Court convicted former chief of staff José Dirceu and numerous other congressional representatives. The rejection of the appeals decreases Dirceu's chance of having his sentence reduced.

**Public Prosecutor:** President Rousseff appointed Rodrigo Janot, Deputy Federal Public Prosecutor, to the post of Public Prosecutor of the Republic. His nomination must be approved by the Senate. Janot is specialized in consumer rights and environmental issues. He is also a member of a chamber in the Public Prosecutor's Office responsible for fighting crime and corruption.

**Economic and Social Development Council:** The Economic and Social Development Council (CDES), made up of government representatives, unions, the private sector and civil society, held a meeting on Thursday. Members have been discussing the five national pacts proposed by Rousseff on fiscal responsibility, political reform, health, transportation and education. Chief of Staff Gleisi Hoffmann asked members to debate ways to meet people's demands while maintaining the balance in public accounts.

### Tax waiver (Jan. – July, 2013)

Contribution of Intervention in the Economic Domain - Fuel	BRL\$ 7.5 bi
Payroll	BRL\$ 7.1 bi
Tax on Industrialized Products (IPI)	BRL\$ 6.6 bi
Tax on Financial Transactions (IOF)	BRL\$ 2.1 bi
Other	BRL\$ 20.3 bi



# Government

## Vetos

A victory in favor of President Rousseff was declared on Tuesday when Congress maintained four presidential vetoes in the first session of vetoes since the new rule was established in July. Among bills whose vetoes were maintained are tax relief for food stamps and compensation for states and cities of industrialized product tax (IPI) relief. Both issues represented an important threat to the President who had vetoed those portions under the claim that they would create a significant fiscal burden to the country.

In order to maintain the vetoes, the President personally talked to the presidents of the House and Senate and members. The vote of vetoes continues to be secretive, giving the Administration little leeway to debate and reprimand members individually. Other controversial issues such as the extinction of the mandatory 10% additional Guarantee Fund (FGTS) payment in the case of firing without just cause have had their vote postponed by request of the President. The vote of vetoes signed before July, among which are the Forest Code and oil royalties division bill, has not been scheduled yet.

## Espionage

The Senate announced members who will seat at the Commission on Parliamentary Inquiry (CPI) investigating allegations of U.S. espionage activities in Brazil. Members include:

- » Eunício Oliveira (PMDB)
- » Ricardo Ferraço (PMDB)
- » Francisco Dornelles (PP)
- » Vanessa Grazziotin (PCdoB)
- » Walter Pinheiro (PT)
- » Aníbal Diniz (PT)
- » Eduardo Amorim (PSC)

There are still four vacant spots at the CPI. The author, Sen. Grazziotin, expects the CPI to begin working by the end of this week.

## Public Bids

President Rousseff published [Decree 8.080/13](#) making alterations to the Public Procurement Regime (RDC). The regime was created by the President in 2011 to create an easier and simpler alternative to the existing system of public procurement for works and services to be provided during the 2013 Confederations Cup, 2014 World Cup and 2016 Olympic Games. Changes to [Decree 7.581/11](#) include new rules for analysis and classification, best available proposal and the price registration system (SRP) which can now be adopted for works with standardized characteristics and services.

# Energy & Environment

## Ethanol

Despite not having been approved by Congress yet, President Rousseff published [Decree 8.079/13](#) regulating the payment of economic subventions to producers of sugarcane and ethanol fuel in the Northeast region of Brazil forecasted in [MP 615/13](#).

The extraordinary payment regarding the 2011/2012 harvest was established by MP 615/13 which still awaits the approval of the Joint Committee and the floor of the House and the Senate. Regardless of the approval of the MP, the Decree is already in force and grants economic subvention to producing units of ethanol fuel registered at the Ministry of Agriculture and independent producers. Units eligible to receive must have their production directed only to the domestic market. Total resources destined to the subvention cannot exceed BRL\$380 million for producing units and BRL\$148 million for individual producers.

## Oil and Gas

The National Agency for Oil, Natural Gas and Biofuels (ANP) published on Thursday an [announcement](#) of public hearing that will take place at the Agency's headquarters in Rio de Janeiro (RJ) on September 18. The meeting will be preceded by a public consultation, open to comments until September 11, on the drafts of the [RFP](#) and the [contract of concession](#) for the 12nd bidding round of blocks for exploration and



production of oil and natural gas.

### Shale Gas

The Senate Environment Committee scheduled a public hearing to debate the exploration of shale gas in Brazil. Representatives from the Ministry of the Environment, National Oil & Gas Agency (ANP) and Brazilian Institute of Oil, Gas & Biofuels (IBP) will attend. The meeting will be held on August 27.

## Tax & Investment

### Ethanol/Dry Ports

The Joint Committee of the House and the Senate approved the rapporteur's report of (MP) 613/13. The MP 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.

Portions of MP 612/13 on dry ports were added to MP 613 including rules on guarantees, fees and obligations of Customs Logistics and Industrial Centers (CLIAs)—dry ports. Movement and storage activities of products under custom in CLIAs will be under concession or permission regimes through public bids with a maximum concession period of 35 years, if the MP is approved.

The MP also extinguishes by 2024 fiscal benefits to the Duty Free Zone of Manaus and for priority products for the SUDENE and SUDAM regions. Members have not come to an agreement on the MP yet, mostly due to the portion on dry ports.

### Nanotechnology

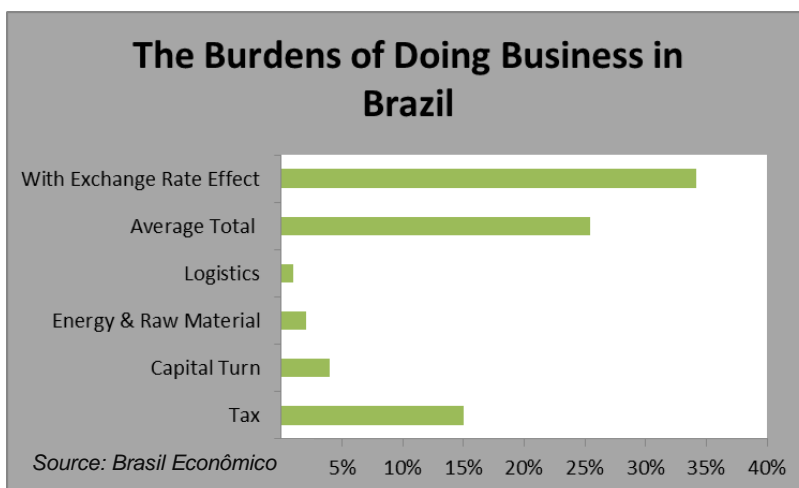
The Ministry of Science, Technology and Innovation launched the Brazilian Initiative of Nanotechnology (IBN) on Tuesday with the goal of creating, integrating, and strengthening the scientific development and technological of nanoscience and nanotechnology actions. The initiative is part of the Bigger Brazil Plan and will total over BRL\$440 million in investments in 2013 and 2014.

## Extra – Brazil Cost

### Custo Brasil

A study conducted by the Federation of Industries of the State of São Paulo (FIESP) demonstrates that the so-called Brazil Cost increases in almost 26% the costs of the domestic manufacturing industry. Recent policies put forward by the government including the reduction of the energy tariffs and tax reliefs programs have already decreased this number significantly, according to the study. Even so, the country continues to be one of the most expensive in the world to goods.

The cost of each industry is different. Companies with medium to low technological intensity such as naval construction, rubber and plastics, oil refinery and basic metallurgy suffer the most with taxation, almost 17.9%. On the other hand, all sectors are affected equally by the high costs and poor quality of logistics in the country. These are only some of the burdens of doing business in Brazil. Other challenges which are harder to measure include the lack of qualified human resources and excessive bureaucracy.



More recently, the exchange rate has also affected the domestic production of goods. During the time of the study, the Brazilian real was at BRL\$2.10 to the dollar. Currently, the real is at BRL\$2.45.



# The Pulse

## Trade Defense: New rule speeds up anti-dumping investigation process

In order to provide more transparency and to speed up anti-dumping investigation process, in the meanwhile reducing costs for companies, the government published [Decree 8.058/2013](#) which updates the 1995 version.

Some of the main changes are related to the reduction of the time of the investigation process and to the increase in the use of provisional antidumping duty. The new rule is under Article 6 of the General Agreement on Trade and Tariff (GATT/94), which allows countries to take action against dumping. The new provisions enter into force in October 1, 2013.

Topics	What is it?	Changes
<b>Preliminary determination of dumping</b>	» It is a preliminary affirmative determination of dumping, injury and causality.	» Reduced from 240 to 120 days.
<b>Dumping investigation</b>	» It is the period of analysis to prove the existence of dumping, injury and causality.	» Reduced from 15 to 10 months.
<b>Review of end of period</b>	» It is granted to parties that request the revision of the antidumping measure in force, by petition, before the end of it.	» The minimum time limit for filing the petition reduced from 5 to 4 four months.
<b>Anti-circumvention</b>	» Circumvention is an unfair trade practice to sidestep anti-dumping measures.	» Included the provisions on anti-circumvention.
<b>Public interest</b>	» Public interest may be a reason for revision of the anti-dumping measure applied.	» Established the time for suspension of the antidumping duty for up to one year (extendable for another year)
<b>Market economy</b>	<p>» Market economy is an economic system in which economic decisions and the pricing of goods and services are guided solely by the aggregate interactions of a country's citizens and businesses and there is little government intervention or central planning.</p> <p>» China is not treated as a market economy in a trade defense investigation by Brazil.</p>	» Transferred jurisdiction over the granting of market economy status for the purposes of trade defense from the Secretariat of Foreign Trade of the Ministry of Development, Industry and Foreign Trade (SECEX/MDIC) to the Foreign Trade Council (CAMEX).
<b>Concepts used in investigation</b>	» Established criteria for understanding concepts used in investigation.	» Similar products will be analyzed according to the criteria of: market, physical characteristics, raw materials, distribution and use of substitutes.

