

**POLICY
MONITOR**

August 26 – 30 , 2013

The Week in Review

ON THE ECONOMIC FRONT

GDP: The Brazilian Statistics Agency (IBGE) announced that GDP growth for the second quarter totaled 1.5%. This year, GDP grew by 2.1%.

Interest Rate: The Monetary Policy Committee (COPOM) of the Central Bank unanimously decided to raise interest rates by 0.5% to 9%--the fourth increase in a row. The Committee will hold two more meetings this year. Market analysts expect interest rates to rise by at least one more point to 10%.

Strikes: Numerous groups of workers are under negotiations with the government for salary adjustments. Among those are regulatory agencies, national transportation department (DNIT), and livestock inspectors. DNIT workers have been on strike since June and livestock inspectors begun their strike on Thursday. On Friday, union workers will hold demonstrations throughout the country.

Tourism: A study conducted by the Ministry of Tourism showed that the greatest cause of discontent for tourists coming to Brazil was high prices. The second most important reason was telecommunication services. Airport infrastructure, safety, and public transportation did not bother tourists as much and were ranked below both issues.

Credit Protection: The Agency for Credit Protection Services (SPC Brasil) announced that the largest defaulting groups are in the middle class (Brazilian Class C). Forty-seven percent of all defaults are within Class C, 34% in Class B, and 13% in Class D. Forty-six percent of respondents claim to have been added to the list of default due to credit card payment delays and 40% due to bank loans. Around half of all dues are between BRL\$1.000 and BRL\$5.000.

Population Growth: Brazil current population is approximately 201 million people, according to a [study](#) released by the IBGE on Thursday. The peak of population growth will happen in 2042 when it will reach 228.4 mi. A fall in the birth rate and a rise in life expectancy will triple the rate of elderly people.

Minimum Wage: The government is considering raising the minimum wage in 2014 to BRL\$722.90 (approximately US\$ 307 dollars) —a 6% rise.

ON THE POLITICAL FRONT

Foreign Minister: Following the controversy of the extradition of a Bolivian senator by a Brazilian diplomat, President Rousseff resigned Foreign Minister Antonio Patriota from his duties after two years in the position. Patriota was reappointed to the post of Permanent Representative to the United Nations in New York. Luiz Alberto Figueiredo, the next Foreign Minister, currently holds the same position in New York. Following the controversy, Rousseff also changed the nomination of the current Ambassador to Bolivia Marcelo Biato to the post of Ambassador of Sweden.

Presidential Contender: Former Environment Minister under President Lula, Marina Silva has presented the 492,000 signatures required for the creation of her new party at the Supreme Electoral Court (TSE) on Monday. If approved by the Court, the political party will be called Sustainability Network and will likely have Silva as the party's presidential contender for the 2014 presidential elections.

NSA Espionage: On Thursday, Minister of Justice José Cardoso met with U.S. Vice-President Joe Biden, Attorney General Eric Holder, and Assistant to the President for Homeland Security Lisa Monaco to discuss allegations of U.S. espionage practices in Brazil. This trip is the political portion of an investigation demanded by the Brazilian Foreign Ministry after journalist Glenn Greenwald published the accusations. Cardoso stated that the discussions yield little results as his Americans counterparts did not accept his request that data collection from Brazilians would only be released under subpoenas. The Commission on Parliamentary Inquiry (CPI) will start functioning on September 3rd.

Convicted House Member: In a secret vote, the House decided to maintain the mandate of House Member Natan Donadon convicted by the Supreme Court of corruption. Donadon has been under arrest for two months and has been sentenced to 13 years in prison. Surprisingly, Donadon did not lose his Congressional mandate. President of the House Henrique Alves (PMDB) announced that his deputy member will take over Donadon's position while he is in prison.

Economic Forecast 2013	
Inflation	5.8%
Interest rate (Selic)	9.5%
GDP	2.2%
Trade Balance	US\$ 3.4 bi
Exchange rate (Dollar)	BRL\$ 2.32
Foreign Direct Investment (FDI)	US\$ 60 bi

Source: Central Bank



Government

Budget

President Rousseff submitted to Congress the Annual Budgetary Bill (PLOA) estimating annual revenue and fixing expenditures for 2014. It foresees an increase of 6.6% in minimum wage from BRL\$ 678 to BRL\$ 722.90. It also presents optimistic perspectives on GDP 2014 growth of 4% and an inflation of 5%--an overly optimistic view considering the current state of the economy. Investment forecasts for the infrastructure and housing programs of the Administration totals BRL\$ 63.3 billion. Petrobras domestic investments are estimated to reach BRL\$ 78 billion while its overseas investments are forecasted to total BRL\$ 6.5 billion.

Internet Framework

The Science and Technology Committee of the Senate held a public hearing to discuss the new internet framework (*Marco Civil da Internet*). Among the attendees were members of the private and public sector including representatives from the Minister of Communications, Minister of Justice, ANATEL and Google. There was consensus among the issues listed below:

- » Network Neutrality;
- » Telecommunication companies cannot maintain data on user access
- » Data protection must be dealt with via specific law;
- » Maintaining data in Brazil must be discussed separately and undergo technical studies; and,
- » The Framework is a general bill and should not go into minor details.

Parliamentary Amendments

The House approved on the second round the constitutional amendment 565/06 which mandates the budgetary execution up to 1% of the net current revenue to individual amendments made by members of Congress. According to the bill, in case of the failure to fulfill the primary surplus target, the parliamentary amendments will be cut. The bill goes now to the Senate for two rounds of debates and votes. If it passes, it will represent an important loss to President Rousseff and an important threat to the fiscal responsibility of the country.

Tax & Investments

Culture Voucher

The Culture Voucher (*Vale Cultura*) established by Law 12.761/12 is an optional tax incentive for companies that grant benefits of BRL\$ 50/month to workers with a salary up to five times the minimum wage to ensure access to cultural products and services in Brazil. On August 26, Decree 8.084/13 regulated the methodology of discount in workers' payroll according to salary ranges. Companies who make use of the Culture Voucher will benefit from a 1% deduction on income tax (IRPJ). Establishments and products valid for the purchase with the Culture Voucher will still be regulated by the Ministries of Culture, of Labor and Employment, and of Finance in early September.

Theatres, bookstores, and movie theaters will be included in the list of possible products to be purchased, but there are still pending decisions on cable TV and newsstands.



Ambassador Luiz Alberto Figueiredo Machado,
Minister of Foreign Relations

Birth Date: September, 1955

Education: Law Degree from the University of the State of Rio de Janeiro (UERJ)

Key posts:

- » 2013: Permanent Representative to the United Nations in New York
- » 2012: Executive Secretary of the Rio+20 National Commission
- » 2011-2013: Deputy Secretary for Environment, Energy, Science and Technology
- » 2005-2011: Director of Environment and Special Affairs

Figueiredo took over the post of Minister of Foreign Relations after former Minister Antônio Patriota resigned due to a diplomatic crisis situation with Bolivia.

Figueiredo is well-positioned with President Rousseff who acknowledges his key role at Rio+20 in 2011, as well as in climate change and biodiversity negotiations.

With an environmental specialist now in charge of one of the most important ministries, President Rousseff is trying to head off the runner-up in presidential polls, former Environment Minister Marina Silva.

Rousseff allowed him to make changes in the Ministry.



Energy & Environment

Ethanol

The House and the Senate approved Provisional Measure (MP) 613/13 which establishes tax credits for producers or importers of ethanol related to sales made by December 31, 2016. The MP also reduces the PIS/PASEP and COFINS taxes in the import and revenue of the domestic chemical sector, among other provisions. The portion on dry ports was rejected. The provision provided that the movement and storage of products under custom norms, in Customs Logistics and Industrial Centers or dry ports, would be under 35 years concession or permission regimes through public bids. The MP also eliminates by 2024 fiscal benefits to the Duty Free Zone of Manaus and for priority products for the SUDENE and SUDAM regions.

Shale Gas

The Senate Environment Committee held a public hearing on August 28 to discuss production and exploration of shale gas in Brazil. Clayton Pontes, Coordinator of Reserve, Exploration and Production of Oil and Gas, mentioned a research in progress over the potential of shale gas reservoirs in Brazil. Preliminary results appointed a volume of 14.6 trillion cubic meters. Some of the main concerns expressed by senators related to rock fracturing and other possible environmental damage. The chief of staff of the National Agency of Oil, Gas & Biofuels (ANP) Sílvio Jablonski stated that, during the 12th bidding round to be held in November, 240 blocks of conventional and non-conventional resources will be auctioned off, increasing significantly the country's capacity of understanding the potential dangers of shale gas exploration.

Local content

The issue is back in the spotlight in the Administration under the perspective of red tape reduction. A multidisciplinary working group intended to harmonize local content rules between financial institutions and regulatory agencies was created, according to Marcelo Mafra, Coordinator of Local Content of National Agency of Oil, Gas & Biofuels (ANP). The goal is to reduce the timing for funding approval to the supply-chain through the unified certificates.

ANP

The Senate approved the nomination of Waldyr Martins Barroso to the post of Director of ANP.

Plastic Bags

The Ministry of Environment extended the functioning of the Working Group established to debate the use of disposable plastic bags for another six months. In 2011, a bill turned into law in São Paulo mandated that disposable plastics bags be charged in commercial establishments. The controversial law was reverted by an injunction of the Public Prosecutor's Office and has been void ever since. The Working Group is studying the impact, alternatives, certifications, awareness campaigns, and regulatory instruments under discussion worldwide.

Health

Biotechnology

On Thursday, the national biotechnology policy was debated in a seminar promoted by the Brazilian Agency of Industrial Development (ABDI). The main issue was the promotion of biological products production of which the registration process is regulated by RDC 55/10. The Director-President of the National Health Surveillance Agency (ANVISA), Dirceu Barbano, stressed that the biological products regulation encompasses, besides sanitary regulation, issues related to access to genetic resources, intellectual property, the definition on the price of bio-similar medicinal products, clinical research regulation to assure safety, government procurement, and its inclusion in the Unified Health System (SUS). The Administration is focused on developing and attracting this industry to the country.



The Pulse

Political Parties and Elections 101

Recent controversies regarding the creation of Former Environment Minister Marina Silva's party have exposed the complexity of the Brazilian electoral system. Below are some of the basics regarding elections, parties and financing:

Political parties

There are currently 30 political parties registered at the Superior Electoral Court (TSE). Registered parties are entitled to public financing by the Party Fund (*Fundo Partidário – FP*) and free TV and radio time in and out of election periods. During elections, parties normally form political coalitions which, in majoritarian elections imply more TV time, and in proportional elections, more TV time and chances of getting members elected.

Elections

Elections occur every two years. General elections choose the President, 27 Governors, all House Members, a portion of the Senate, and state legislatures. Mayoral elections elect mayors and council members. Election for President, governor, and mayor are single-winner voting system whereas Congress and legislatures are chosen through proportional representation. All members have a mandate of four years with the exception of Senators who hold an eight-year mandate. Re-election is unlimited except for Presidents, governors, and mayors, who can only be re-elected once.

Voting

Voting is mandatory for all citizens between 18 and 70 years old. Voting is optional for those between 16 and 18, above 70 years old and for illiterates. The voting system is electronic, and results are released the same day.

Opening a Party

Any group of Brazilian citizens is allowed to open a political party as long as it is founded by 101 members with residence in at least one-third of Brazilian states. For its foundation, the party must also gather the minimum of 0.5% of signatures of the total voting population in the latest House election located in at least ten states.

Party Fund

When registered, parties are entitled to funds of the FP which are collected annually via fines for absentee voters and other penalties, budget allocations, and donations. Budget allocations are given in accordance to the voting population versus BRL\$0.35. In 2013, parties will receive around BRL\$295 million in allocations and BRL\$38 mi in fines.

Division of the FP

5% of the funds are divided equally among all TSE registered parties. The remaining 95% are split proportionally between the parties according to the number of members elected in the House of Representatives.

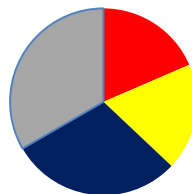
TV and Radio Time

All parties are entitled to free TV and Radio time. The amount of time each candidate receives during electoral periods is determined by a formula that calculates the number of candidates competing in a certain election, the number of parties in the candidate's coalition, and the strength of the party measured by its representation in Congress.

PT
Affiliates: 1.4 million



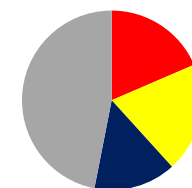
Governors:



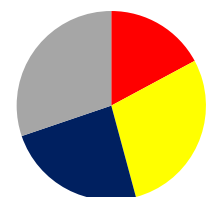
PMDB
Affiliates: 2.2 million



Senators:



House:



PSDB
Affiliates: 1.2 million

