

**POLICY
 MONITOR**

September 16 – 20, 2013

The Week in Review

ON THE ECONOMIC FRONT

Dollar: The U.S. Federal Reserve's decision to maintain its expansionist monetary policy caused a 3% appreciation of the Brazilian Real. This week, the Real reached BRL\$ 2.19 to the dollar, the most appreciated exchange rate in the last three months. In late August, it reached BRL\$ 2.45. Alexandre Tombini, President of the Brazilian Central Bank, said during a public hearing in the Senate that the Fed's decision is likely to decrease pressure on emerging countries' exchange rates.

Oil: The deadline for interested companies to sign up to participate in the first Pre-Salt bidding round scheduled for October 21st ended on Wednesday. According to the Director of the National Oil & Gas Agency (ANP) Magda Chambrind, twelve companies had signed up to participate in the Libra field bids expected to yield at least BRL\$ 900 billion in returns. Three large oil firms--ExxonMobil, BP and BG--chose not to bid on the Libra round. On a related note, the adjustment of the price of gasoline should be expected before the round. The move is already expected by the market considering the lag between domestic and international prices.

Mining Code: Due to intense debates in Congress, President Rousseff in a conciliatory move is likely to remove the constitutional urgency for the analysis of the new Mining Code. The matter has been blocking the vote of other bills in the House since early August because of the urgency. Members of Congress have been demanding that the President remove the urgency due to the complexity of the topic. Because of positive support from Congress during this week's session on presidential vetoes (*see more below*), the constitutional urgency is seen as a counterpart to Congress.

Public expenditures: The first two years of President Rousseff's Administrations have been marked by an increase in expenditures, especially cash transfers to families in the program *Bolsa Família*, a policy which has been a top priority for Brazil since the Lula Administration. On the other hand, we see a stagnation of investments at a low average of approximately 1% of GDP.

Public expenditures (% of GDP)	2008	2009	2010	2011	2012
Primary expenditure	16.4	17.7	17.4	17.5	18.2
Staff costs and tax expenditures	4.3	4.7	4.4	4.3	4.2
Cash transfers to families	8.1	8.7	8.5	8.6	9.2
Investments	0.9	1	1.2	1	1.1
Health and education costs	1.7	1.9	2	2	2.2
Others	1.4	1.4	1.3	1.6	1.5

Source: Ministry of Finance

ON THE POLITICAL FRONT

Trip Cancellation: Notwithstanding President Obama's phone call on Monday, Brazilian President Rousseff decided to indefinitely postpone her state visit to Washington, DC, originally scheduled for October 23rd. Editorials from all positions in the political spectrum dominated Brazilian newspapers on Wednesday from critiques to the President's attitude, to support on her stance to not permit that espionage acts go unpunished. Some of the stronger critics raised the point that President Rousseff was tough on Obama while soft on the recent episode with Bolivian President Evo Morales.

New Ambassador: The new U.S. Ambassador to Brazil Liliana Ayalde arrived in Brazil on Monday in the midst of discussions concerning the President's visit to the Washington. Thus far, Ayalde has not spoken on N.S.A. espionage allegations. Ambassador Ayalde met with BUSBC board level companies Friday just before travelling to Brazil.

Ministry of Labor: Scandals surrounding top-tier employees of the Ministry of Labor, which led to the discharge of the Ministry's Executive-Secretary last week, have caused Minister Manoel Dias to come forward and state that should he be fired that he would take "unpublishable actions". According to accusations, which are currently being investigated by the Federal Police, the Ministry has signed sham contracts worth over BRL\$ 400 million. The Minister's wife is also involved in the alleged scandal.

PSB Exit: Potential presidential contender and president of the PSB party Eduardo Campos announced that the party will give up the two ministries it currently holds within the Rousseff administration. The party heads the Ministry of National Integration and the Secretariat of Ports. The move is seen as a first step for Campos' presidential run next year.

Strikes: Bank workers are on strike throughout the country demanding salary readjustments and better working conditions. Bank agencies remained closed on Thursday and Friday.

Secret Vote: On Wednesday, after a change in the report of rapporteur Sen. Sérgio Souza, the Senate Constitution and Justice Committee approved a House Constitutional Amendment Bill (PEC) [43/2013](#) that puts an end to secret votes in the legislative branch at federal, state, and local levels. The Bill now goes to the floor of the Senate and it has to be voted on in two rounds and approved by 3/5 of the senators.



Government

Presidential Vetoes

In an important victory for the President, Congress has decided to maintain the presidential veto mandating that companies pay an additional 10% fine to the Guarantee Fund (FGTS) for employees fired without just cause. If overridden, the veto would have represented a significant loss to the President both fiscally and politically. First, the elimination of the fine would have reduced collections by BRL\$ 3 billion by the government. Second, the money is currently being directed to investments in the *Minha Casa, Minha Vida* Program, an important social program and one of the showpieces of the Rousseff Administration. To ensure the win, Rousseff introduced a bill last week mandating that all proceeds from the fine be exclusively directed to the program. This was the second session that analyzed the presidential vetoes since new rules were set in early July. The next session is set for October 15.

Anti-Corruption

Also analyzed at Tuesday's session were the presidential vetoes to Bill 6826/10 which created the new Anti-Corruption Law ([Law 12.846/13](#)). The three vetoes imposed by the President concerned limitations added by Members of Congress including:

- » Limitation of penalties to the value of the contract;
- » The necessity of proof of intent to deceive; and,
- » Public servant's contribution to the act.

All three vetoes were kept by Congress and provide an important step towards the development of the anti-corruption legal framework of the country. A Decree regulating the Law should be published soon.

Mensalão Trial

On Wednesday, the Supreme Court decided to accept infringing embargoes raised by 12 of the 25 individuals convicted by the *Mensalão* trial. *Mensalão* was a vote-buying scheme established in the early years of former President Lula's government to increase support for the PT party. The trial began in August of 2012 and has convicted 25 people for their involvement in the scheme for crimes such as conspiracy and money laundering, including former presidential chief of staff José Dirceu. The embargoes grant a chance of an appeal at the Court by the convicted.

Housing, Invoices and Culture

The Senate approved Provisional Measure ([MP](#)) 620/13. Among other issues, the MP creates the program My Better House (*Minha Casa Melhor*) which provides BRL\$ 5,000 in funding to beneficiary families of the My House, My Life program (*Minha Casa, Minha Vida*) to buy household appliances.

The MP also extends the Culture Voucher to companies that operate in the presumed profit regime. Finally, the MP establishes a 12-month adaptation period for establishments and service providers to begin detailing in invoices and receipts the total amount of taxes being paid. After the deadline, companies are subject to sanctions and penalties, according to Law 12741/12. The MP goes on to be signed or vetoed by the President.

Tax & Investment

Import Tax

The Foreign Trade Chamber (CAMEX) published Resolutions 73 and 74/13 altering to two percent the import tax for certain machinery and capital goods under the ex-tarifario regime until December 31, 2014. The new list affects the agribusiness, telecommunications, and informational technology sectors, among others. The full list can be found [here](#) and [here](#).

Import Tax II

By cancelling this week's meeting, the Foreign Trade Chamber (CAMEX) did not renew Decision 39/11 which increases the import tax on a list of 100 imported products with similar domestic products. The decision expires on October 1st. Minister of Finance Guido Mantega had anticipated that the list of products with higher import tariffs would not be renewed. The Chamber, however, is studying the possibility of adding some of the products to the list of exceptions to the Mercosur's common external tariff (LETEC).

Did you know?

The Superior Electoral Court (TSE) has been implementing the **Biometric Voter Identification Program** since 2008. It aims to provide more security to the voting process through the collection of voter fingerprints.

For the 2014 general elections, the Court wishes to register 16 million voters **reaching a total of 23.7 million voters with biometric identification throughout the country.**

Brazil electoral voting is known worldwide for its high technological complexity. In the Presidential elections of 2010, Brazil had a record number of **over 150 foreign observers** of governmental and non-governmental organizations from 36 countries and

That list is valid until December 2015 and is currently under discussion. LETEC's goods are mostly intermediary and consumer goods, whereas goods contemplated in the Decision were mostly capital goods.

Transition Tax Regime

The Federal Revenue Secretariat (RFB) published Ordinance 1397/13 regulating the Transition Tax Regime (RTT) established by Law 11.941/09. The Regime's intention is to align Brazilian accounting norms to international standards. Among other things, the ordinance addresses rules that companies in the real profit system must follow regarding the Income and Social Contribution on Net Income tax (CSLL), PIS/PASEP taxes, profits, and dividends. Furthermore, the ordinance mandates that companies at the RTT present annually Accounting Fiscal Bookkeeping (ECF) via the Public System of Online Bookkeeping (Sped). For the fiscal year of 2013, this will continue to be done via Accounting Fiscal Control of Transition (FCont).

Infrastructure

A disappointing first public auction for the road concession program of the Administration has brought back debates about the private sector's interest in engaging the Brazilian government. Last Friday, the government held the bidding round for route BR-262 originally considered one of the most attractive roads for private investment. No offer was made for the stretch.

The deal offered by the government established joint responsibility for the project between the private company and the National Department of Transportation Infrastructure (Dnit). The required participation of the Dnit was one of the criticisms of the private sector. Other complaints included high toll prices and the short timeline for the conclusion of the project.

On Wednesday, the bid on road BR-050 took place, and the winning bid offered tolls as low as 42% below of the maximum price requested by the Administration. The successful bid provided relief for the government which has stated that it will analyze future bidding rounds on a case by case basis to avoid disasters like the BR-262 bid.

These were the first in a series of infrastructure bidding rounds scheduled for this year. The total amount of investment expected totals BRL\$ 225 billion, with up to 70% of that amount financed by the government. Upcoming bids include route BR-101, the Açailândia-Belém railroad, and the oil field Libra.

Trade

Dumping

On Thursday, the Secretariat of Foreign Trade published three ordinances related to the process of investigation of dumping.

- » **Ordinance 36/2013** - Rules on proposals of price commitment by producers/exporters under investigation of dumping. The commitment of reviewing export prices or ceasing exports at dumping prices to Brazil, when satisfactory, may suspend the investigation without imposing provisional measures or definitive duties for producers or exporters that have voluntarily assumed the commitment.
- » **Ordinance 37/2013** – Rules on the drafting of petitions required to determine whether a product is subject to an anti-dumping measure in force. The new rules will be effective to requests filed on October 1, 2013.
- » **Ordinance 38/2013** – Rules on the legal representation of stakeholders, national or foreign, individuals or legal entities, participating in trade defense cases. The ordinance establishes that only authorized representatives shall have access to trade defense case materials. In addition only authorized representatives may protest on behalf of interested parties on these occasions.

Energy & Environment

Gas

The House Committee on Finance and Taxation scheduled a hearing in conjunction with the Committee on Mines and Energy to debate the conventional and non-conventional gas sector as it concerns production, transportation, commercialization, and taxation. The meeting will be held next Tuesday, September 24th and invitees include representatives of the Ministry of Mines and Energy, the Ministry of Environment, and Petrobras.

Petrobras

During a meeting of the Commission on Parliamentary Inquiry (CPI) on U.S. Espionage, the President of Brazilian oil company Petrobras, Graça Foster, categorically stated that there has been no evidence of system invasion by the N.S.A. She further commented that the company has one of the most advanced information security systems in the world.



The Pulse

FAQ: Electoral campaign financing in Brazil

In Brazil, electoral campaigns are financed by public and private resources. The Party's Fund – a special fund for financial assistance to political parties with resources accruing mostly from the federal budget – provides public resources, whereas private funds are donations of individual and legal entities. Candidates and political parties can spend these resources on marketing, campaign rallies, and travel. In the 2010 presidential elections, approximately BRL\$ 2 billion was raised of which 86% came from private donations. Below are Frequently Asked Questions about campaign financing according to [Law 9.504/97](#).

1. Who can receive funding?

Candidates, political parties, and party coalitions

2. Who can donate?

Individuals and legal entities

3. What are the limits for donations?

- 10% of gross income earned in the year prior to the election, for individuals
- 2% of gross income earned in the year prior to the election, for legal entities
- Limits established by the party, in case of the use of a candidate's personal income

4. Is there proof of the donation?

Yes, an electoral receipt is issued

5. How to donate?

To specific banking account through:

- Checks, bank transfer, collection bill, credit, or debit card
- Deposits with due identification of the donor
- Goods and services

6. Which type of resources can be donated?

The resources for the campaign are:

- Personal resources of candidates;
- Funds of political parties;
- Donations in money or estimable in money, from individuals or legal entities
- Donations by debit or credit
- Donations from other candidates, finance committees, or political parties
- Transfer of funds from the Party Fund
- Revenue from sales of goods, services, and/or events, as well as the financial application of resources for the campaign

7. Who cannot donate?

- Private company receiving public money*
- Class entities or trade unions
- Foreign entity or governments
- Public administration entity or foundations receiving public funding
- Public utility entity

➤ Non-profit legal entity that earns funding from abroad

➤ Charitable entities

➤ Athletic entities

➤ Non-governmental organizations receiving public funds

➤ Civil society organizations of public interest

**On Monday, the Senate approved [Bill 441/2012](#), the "electoral mini-reform", which allows donations by public-service concessionaire companies. The bill has to be approved by the House and signed off by President Rousseff by October 5th, to be in force for the 2014 elections.*

8. Do banks oversee the resources donated?

Yes. Financial institutions provide the Electoral Justice banking account statements to assist in the accountability of candidates, financial committees and political parties.

9. Who can request an investigative process?

Any political party, coalition, or citizen can make a complaint or request a judicial investigation before the Electoral Justice.

10. Where are the data on electoral campaign funding?

The Superior Electoral Court (TSE) [website](#) provides transparency on funding data.

2010 Presidential election donations

By sector (BRL\$ million)



Source: TSE

