

# The Week in Review

## ON THE ECONOMIC FRONT

**Foreign exchange loss:** The Central Bank registered strong U.S. dollar outflow in the month of August for the payment of loans contracted abroad by banks in mid-2011. The foreign exchange loss was US\$ 5.85 billion. It was the worst result for that month since 1998. In the last three months, the loss totals BRL\$ 10 billion.

**G-20 Meeting:** The group of the 19 leading national economies plus the European Union met this week in Saint Peterburg, Russia to discuss the global economy and the fight against tax avoidance and evasion worldwide. BRICS members also took the opportunity to hold an informal meeting to debate its project of creating a development bank and a reserve fund.

**Innovation:** Last month, Forbes released its third annual [list](#) of the world's 100 most innovative companies. The minimum criteria to be on the list are to have seven years of public data, US\$10 billion in market capitalization, and to spend at least 2.5% of revenue on research and development. Three Brazilian companies made the list: Natura (10<sup>th</sup>), BRF (39<sup>th</sup>), and Ultrapar Participações (55<sup>th</sup>).

**Innovation II:** On Tuesday, a National Confederation of Industry (CNI) initiative called Mobilization for Business Innovation (MEI) held its 5<sup>th</sup> Congress with over 600 entrepreneurial leaders. The Minister of Science, Technology and Innovation, Marco Antonio Raupp, announced the signature of a decree qualifying the Brazilian Research and Industrial Innovation Company (Embrapii) as a social organization. *(See more below)*

**Railways:** The Administration included by [Decree 32](#) segments of federal railways in the National Desestatization Program. In order to attract private investment, the segments will be later put on auction for concession to companies.

**Bigger Brazil:** The Brazilian Agency of Industrial Development published a [balance sheet](#) with results of the first two years of the *Bigger Brazil* industrial policy.

## ON THE POLITICAL FRONT

**President's Week:** Rousseff's week was marked by international meetings and the debate over the allegations of U.S. espionage. On Monday, after discussing the issue with the Minister of Communications, Paulo Bernardo, and the Minister of Justice, José Eduardo Cardos, Rousseff flew to Russia where she held BRICS and G-20 meetings during the week. Rousseff also took the opportunity to promote a bilateral dialogue with the President of China, Xi Jinping, and the Prime-Minister of Japan, Shinzo Abe.

**Rousseff Visit to Washington:** After several allegations of U.S. espionage, the most recent one including data collection on President Rousseff, newspapers have been speculating that her official visit to Washington, DC on October 23rd may be suspended and that she awaits an apology from President Obama. Rousseff canceled the trip of the organizing team scheduled for next Saturday. At a press conference in St. Petersburg, Russia on Friday, the President said the visit now "depends on the political climate created by President Obama." Rousseff and Obama met Thursday night on the sidelines of the G20 conference in St. Petersburg. At Friday's press conference, Rousseff said President Obama has assumed "personal responsibility" for investigating allegations of U.S. spying on Brazil's government. She said the U.S. President has promised to deliver a personal explanation regarding the allegations by next Wednesday.

**U.S. Ambassador changes:** Today, Ambassador Thomas Shannon leaves his post as U.S. Ambassador to Brazil after three and half years. Ambassador Liliana Ayalde will take office on September 15th in the context of strained bilateral relations.

**Brazilian Embassy in WDC:** Sandro de Vargas Serpa was designated the new Brazilian Tax and Customs Attache to the embassy in Washington, DC. Serpa previously held the position of Deputy Secretary for Taxation and Litigation in the Brazilian Revenue Service (RFB).

**Protests:** Due to the September 7 celebrations of Independence Day, protests have been scheduled for 150 cities throughout the country.

Most innovative companies 2013

Rank	Company	Country	Innovation Premium* (%)
1	Salesforce.com	U.S.A.	72.8
2	Alexion Pharmaceuticals	U.S.A.	72.3
3	VMware	U.S.A.	63.7
4	Regeneron Pharmaceuticals	U.S.A.	63.1
5	ARM Holdings	U.K.	61.2
6	Baidu	China	60.6
7	Amazon.com	U.S.A.	60.2
8	Intuitive Surgical	U.S.A.	53.9
9	Rakuten	Japan	50.7
10	Natura Cosméticos	Brazil	48.5

\*The Innovation Premium is a measure of how much investors have bid up the stock price of a company above the value of its existing business based on expectations of future innovative results.  
 Source: Forbes



# Government

## Land for Foreigners

The Minister of Agrarian Development published [Ordinance 76/13](#) revoking Ordinance 70/11 on the procedures for foreigners residing in Brazil or companies authorized to act in Brazil to acquire and lease rural realty.

The new Ordinance maintains a 50 and 100 modules maximum limit for acquisition by individuals and companies. The size of the modules is established by the National Institute of Colonization and Agrarian Reform (INCRA). Regardless, there is still a limit on the purchase of 25% of the size of the municipality by a single person or company. Moreover, individuals from the same nationality cannot be proprietors of more than 10% of the size of the municipality. Other rules for individuals include the requirement of INCRA's approval for the acquisition or lease of properties between three and 50 modules. Establishments smaller than three modules do not require approval unless they are located in border or strategic zones.

What has changed as a result of the new Ordinance:

- » Acquisition of lands above 20 modules must have their exploration projects approved by the Ministry of Agrarian Development;
- » All companies acquiring or leasing properties will require the approval of INCRA and other competent entities such as the Ministry of Agriculture, Livestock and Supply (MAPA), Ministry of Development, Industry and Commerce (MDIC, and Ministry of Tourism (MT);
- » Documentation requirements

## Espionage

The Senate Commission on Parliamentary Inquiry (CPI) investigating allegations of U.S. espionage held its first meeting on Tuesday. Senator Vanessa Grazziotto (PCdoB) was elected president of the commission and Sen. Ricardo Ferraço (PMDB) was elected rapporteur.

Ferraço is the President of the Senate Foreign Relations Committee and was recently involved in the scandal of the removal of Bolivian politician Roger Pinto Molina from the Brazilian embassy in La Paz. The rapporteur is responsible for presenting a final report on the works of the commission that will later be approved by the whole chamber.

Two requirements were approved in the first meeting including one requesting that the Federal Police provide special protection to *The Guardian* journalist Glenn Greenwald and his partner David Miranda, who was recently arrested in London's Heathrow airport.

## Culture voucher (Vale Cultura)

On Friday, the Ministry of Culture [published](#) rules on companies and users, as well as the list of products and services that can be purchased with the [culture voucher](#) - theaters, movies, magazines, newspapers, CD and DVD, art exhibitions, artcraft, visual arts equipments, among others.

## MP 620/13

The Joint Committee approved the report on Provisional Measure (MP) 620/13. The measure states that:

- » Companies registered as Assumed Profit are allowed to participate in the Culture Voucher program;
- » Establishes the 12-month deadline for companies to comply with Law [12.741/12](#) which mandates that establishments and services providers detail the total amount of taxes being paid;
- » Provides guidelines for the financing of durable goods for beneficiaries of the *Minha Casa, Minha Vida* program.

The MP must still be approved on the floor of the House and the Senate.

# Energy & Environment

## Pre-Salt

The National Agency of Oil, Gas & Biofuels (ANP) published the RFP and the model of contract for the first round of pre-salt blocks bidding to be held in October. The documents are available [here](#) and [here](#).

## Mining Code



Speaker of the House Henrique Eduardo Alves negotiated on Wednesday with the President-in-Office Michel Temer, and Presidential Chief of Staff Gleisi Hoffmann to set the date of October 15th to vote on the new mining code in the special committee in charge of analyzing the bill. Alves expects that with a scheduled date, the Administration makes a commitment to withdraw the constitutional urgency – which demands a vote in 45 days - on the bill that already blocks matters on the House floor.

## Health

### Regulatory Agenda

The Executive Board of the Health Surveillance Agency (ANVISA) partially approved the Agency's Regulatory Agenda for 2013/2014. Some of the issues approved include the revision of Decision 81/08 which mandates that all documents must be translated into Portuguese for protocol at the Agency, the revision of the regulatory model for sanitizing products, procedure for registration of medicine exempt from prescription, and the interchangeability of generic and non-generic drugs.

Also at the Agency, Director Jaime Oliveira took over the Sanitary Control and Surveillance Area following the retirement of Director José Agenor da Silva.

## Technology

### Mobile Payment

The Joint Committee of the House and Senate approved the final report on Provisional Measure [\(MP\) 615/13](#). The MP provides on numerous issues such as:

- » Expansion of extraordinary subvention to ethanol and sugarcane producers in the Northeast due to attenuating climate circumstances;
- » Tax relief for non-traditional commerce establishments such as online, phone, catalog, or other means;
- » Regulates mobile payments

The MP is the first regulatory document to attempt to regulate financial transactions made through mobile devices. It delegates the authority to the National Monetary Council (CMN) and Central Bank (BCB) to detail specific guidelines for those forms of payment. Among the clauses of the MP are the inclusion of m-payments in the Brazilian System of Payments (SPB) and the ensurance that guidelines will foment innovation and diversity of business models in the sector. The MP must still be approved by the House and the Senate by the 16<sup>th</sup> or it expires.

### Innovation

The House established the Special Committee which will analyze the constitutional amendment bill [290/13](#) which grants to the state the obligation of promoting science, technology, and innovation activities. The bill also established a regime of cooperation between private and public entities to promote innovation.

The president of the Special Committee, Dep. Gabriel Chalita (PMDB/SP), and the composition of the Committee is the same as the one which analyses bill [2177/11](#) that institutes the National Code of Science, Technology and Innovation.

### Internet Framework

In the second public hearing held by the Senate Science and Technology Committee, attendees disagreed with the conclusions from last week's hearing mostly with regarding network neutrality. Present in this meeting were representatives from the National Agency of Telecommunications (ANATEL), the Ministry of Justice, and the National Union of Telephone Carriers (Sinditelebrasil). Other disagreements raised in last week's meeting include the debate on whether to keep data in the country and the necessity of companies providing access to obey Brazilian laws. There is still no date set for a vote on the new internet legal framework bill (*Marco Civil da Internet*).

### Did you know?

On Tuesday, the **Brazilian Research and Industrial Innovation Company (Embrapii)** was qualified as a social organization by [Decree](#) which allows the Company to conclude a management contract with the Administration in order to be provided with public resources. The contract is expected to be concluded by October. An amount of BRL\$ 1 billion is estimated to be provided until 2014.

### Basic facts

Embrapii has been widely demanded by Brazilian business people. Since 2011, the Administration has been working on the pilot project of Embrapii. The company was designed with a public-private shared management and aims to boost cooperation projects between research and development institutes and companies for the creation of new products and innovative process. The first RFP to the accreditation of institutes is expected to be launched in December.



# The Pulse

## “Lei do Bem”: Tax incentives for companies to boost innovation in Brazil

Brazil has a relatively young innovation framework that is still under construction. During the first term of President Lula an effort to design and implement innovation policies reached its peak with the creation of the “Industrial, Technological and Foreign Trade Policy (PITCE)”. The Innovation Law, published in 2004, established guidelines related mainly to improving strategic partnerships between universities, technological institutes, and companies; stimulating the participation of science and technology institutes in the innovation process; and encouraging innovation inside companies.

The tax incentives foreseen in the Innovation Law were regulated by Law 11.196/2005, known as “Lei do Bem” (“The Good Law” because of its tax incentives for companies). All companies that invest in innovation in Brazil, calculate its corporate income tax (IRPJ) by the real profit system, have taxable earnings, and are in good tax standing are eligible for benefits granted by this rule.

Deliberately, the Law has a broad concept of innovation as the design of a new product or manufacturing process, as well as adding new features or characteristics to the product or process, providing incremental improvements and effective gain in quality or productivity, and resulting in greater competitiveness in the market.

“Lei do Bem” grants tax incentives for the corporate income tax (IRPJ), the social contribution tax on business entities' profits (CSLL), the withholding tax (IRRF), and the tax on manufactured products (IPI). The total value of the incentives depends on each project considering the costs of investments in technological research and development of technological innovation. The Ministry of Science, Technology, and Innovation estimates that these incentives can reduce by up to 34% the companies' expenditures on activities of research, development, and innovation (RD&I).

Companies using these tax incentives from “Lei do Bem” must provide annually, by July 31st, through an electronic form its accountability regarding the activities of RD&I. Companies can also [simulate](#) the tax incentives on the homepage of “The Practical Guideline of Innovation for Companies.” Besides tax incentives, the Financier of Studies and Projects (FINEP) has a funding program which subsidizes the remuneration of new master's or doctoral research for companies working exclusively on technological innovation.

