

The Week in Review

On the Economic Front

Economic Measures for 2015

On Tuesday, Minister of Finance Joaquim Levy held a breakfast meeting to present his finance team and discuss primary challenges with the press. According to Levy, the economic goals for President Rousseff's second term are:

- » To diminish government spending in order to achieve the primary surplus goal, while reducing inflation;
- » To increase investment growth in order to avoid a recession.

To achieve these targets, Levy reported that the finance team will start by getting the government's accounts in order, which have been heavily criticized for so-called 'creative accounting'. However, they claim that organizing these accounts has a medium to long-term impact, and since the Brazilian economy requires immediate attention, increasing taxes is also being considered.

Another important step to be taken in 2015 will be to combat tax evasion. According to the IRS (*Receita Federal do Brasil* - RFB), approximately BRL\$400 billion per year in taxes are evaded in Brazil. The return of Jorge Rachid as Secretary of the Federal Revenue Office is seen as a measure to address this concern because Mr. Rachid has a track record of strong supervision and robust collections during his first term as IRS secretary in 2005.

On the Political Front

World Economic Forum

According to *Folha de São Paulo*, President Dilma Rousseff has declined to participate in the upcoming World Economic Forum in Davos, Switzerland being held January 23-24 so that she can attend the inauguration ceremony of Bolivian President Evo Morales in La Paz instead. The presidency's chief of staff still has not confirmed his participation as a replacement for President Rousseff at the World Economic Forum.

Task Forces

Trade & Regulation

Visas: On January 8th, the Ministry of Justice published its procedures concerning some types of permanent residency visas and foreign registration. The ministry also established new procedures that simplify the process for newspaper, magazine, radio, television, and agency correspondents and students to change temporary visas to permanent ones. Among the new requirements is a declaration to the Brazilian consular



authorities justifying a visa extension. For students, the maximum extension is two years, and for correspondents, the maximum is four years.

Healthcare

Working Group for Prosthetic Production Process: On January 9th, the Ministry of Health (*Ministério da Saúde*) created a working group to restructure and expand transparency of the following processes: production, import, purchase, distribution, use, taxation, evaluation and technological incorporation, price regulation, and to improve the clinical regulation on orthotics, prosthetics, and special materials in Brazil. This working group was established in response to allegations of a scheme engineered by prosthetics manufacturers and doctors. Manufacturers are said to be paying commissions to doctors from the public and private health system to prescribe certain products, thereby inflating costs with unnecessary prescriptions and implant surgeries.

New Market Process for HPPC Products: On Wednesday, the Board of Directors of the Brazilian Health Surveillance Agency (*Agência Nacional de Vigilância Sanitária – Anvisa*) approved changes to Resolution (*Resolução da Diretoria Colegiada – RDC*) 04/2014, which governs technical requirements for cosmetics, personal hygiene, and fragrance products. Under the altered regulations, cosmetic products (except repellents, sunscreens, hair straighteners, hand sanitizers, and products aimed at children) will no longer have to be formally registered, only notified, which should speed products to market. The approved changes also ended the rate exemption for notification on cosmetic products (RDC 222/2006), which means firms must now cover the cost of product notification for all cosmetic products that no longer have to be registered. Now the Brazilian cosmetics framework complies with most international laws. Post-marketing regulation allows an easier and faster selling process, with a partnership between government and companies, which have responsibilities for the products marketed.

Brazil Approves Access to Marijuana Derivative: In the same Anvisa Board meeting, the use of a marijuana derivative, Cannabidiol, to treat people suffering from severe seizures and other conditions was approved. Cannabidiol is not produced in Brazil, and the resolution establishing the criteria for import, however, is still under review by ANVISA. According to the director of the agency, Jaime Oliveira, the resolution should come out within 30 or 40 days. With the approval of the substance, Cannabidiol will be taken out of the prohibited substances list in the country. It is the first time that the agency will officially recognize the therapeutic effect of a substance derived from cannabis. The change will also allow for laboratories to research Cannabidiol and request the registration of products and even herbal remedies of the substance in the country.

Innovation

Public Debate on Personal Data Protection Draft Bill: On January 15th, the Ministry of Justice (*Ministério da Justiça - MJ*) announced that two websites will be launched on January 28th to publicly discuss the Personal Data Protection draft bill and regulation of the Internet Framework Bill. The purpose is to receive contributions and build a collaborative text for both bills in a democratic and participative way. Twitter and Facebook will function as auxiliary channels for the discussions. A deadline for contributions was not given.

Research, Development, and Innovation Program in Cyber Defense: On January 7th, the Ministry of Science, Technology, and Innovation (*Ministério da Ciência, Tecnologia e Inovação – MCTI*) created the Research, Development, and Innovation Program in Cyber Defense, which will work as a network for Research, Development, and Innovation. Its primary goals are:

- » Stimulate cyber defense actions;
- » Contribute to innovation in the fields of security of information and cyber defense systems;
- » Promote information services, outreach, assistance, training, and support of products and services for cyber defense, and;

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The Pulse

Policy Direction Not Crystal Clear in the New Administration

President Dilma Rousseff was inaugurated to a second term as President of the Federative Republic of Brazil barely two weeks ago. Although there is insufficient information to make clear and definitive pronouncements on the exact path the new administration will take on various matters, changes have already begun, even if they do not reveal a comprehensive strategy. Brazil faces a challenging economic and political situation, and to address the issues, President Rousseff will have to manage complex relationships with Congress, civil society, the business community, and foreign governments. To accomplish this task, she has restructured her cabinet to include a mix of long-time political loyalists, as well as technical experts capable of implementing new strategies.

Despite press coverage on many issues from changes in tax policy, administered prices for transportation and gasoline, and social spending, it is clear that a full sense of the policy picture will not come into focus for some time. Still, there are some key events to track in the near future that may provide a better understanding of the new administration's direction. First, it appears as though President Rousseff will forgo her trip to the World Economic Forum next week and in her stead perhaps send Minister of Finance Joaquim Levy. Given that one reason for the trip is to reassure international investors, it is possible that major policy changes directed at addressing the inevitable fiscal adjustment may be released at that time or before.

Second, on February 2, 2015, the Brazilian House and Senate will choose their new leadership. For President Rousseff to achieve her economic adjustment goals, she must work with the new Congress to change the law. She does not, however, enjoy strong political support in either chamber. This is particularly true in the House, which is expected to elect Eduardo Cunha, a member who has directly rebuffed President Rousseff's efforts to form plebiscite groups to circumvent congressional processes and authority. The leading candidate for leadership in the Senate, Renan Calheiros, is also disgruntled with the president over lack of party representation in her cabinet.

Finally, the president also faces some challenges from within her own Workers' Party (PT): her major coalition partner, the PMDB, as well as opposition parties. This situation will require deft political skills to manage and may account in part for her cautious approach to making policy announcements and moving ahead more openly with a formal strategy to govern. Therefore, it may take some weeks, perhaps beyond the Carnival recess, to have a clearer picture of Brazil's direction, which will likely include increases in various taxes.

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