

# The Week in Review

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## On the Economic Front

### Tax Measures for 2015

As part of the fiscal adjustment taking place in Brazil, President Dilma Rousseff has approved four changes to the tax code, raising rates on specific taxes. On Thursday, two of the four tax increase measures announced by Finance Minister Joaquim Levy last week were published in the Official Gazette. The first establishes the IPI tax rate for cosmetics distributors so that it will be equal to the rate charged at the manufacturing level. The second is an increase in the social contribution tax (PIS/COFINS) applied to imports of gasoline, diesel, liquefied petroleum gas, and jet fuel.

Under the Brazilian Constitution, tax measures should have a 90-day window before taking effect to allow affected parties time to adjust to changes in tax rates and rules. The IPI on cosmetics, which will create a tax rate for distributors equal to manufacturers, **will take effect on May 1, 2015**. The PIS /COFINS measure that will increase the rates on imports and sales of fuels, however, **will take effect on February 1<sup>st</sup>**, ignoring the required 90-day period. The increase in the PIS/COFINS tax rate on fuels will be tentatively reduced on May 1st, when an excise tax on gasoline (CIDE) takes effect. However, the retailer will not be permitted to pass on the fuel tax increase at the pump.

The increase in the Financial Transaction Tax from 1.5% to 3.0% on personal loans has already been approved and published in the Official Gazette, effective June 2015. A fourth tax increase on Social Taxes on imports that would rise from 9.25% to 11.75%, which will be implemented by Provisional Measure, has not yet been published in the Official Gazette.

## On the Political Front

### Congressional Elections

On Sunday, February 1<sup>st</sup>, Congress will hold leadership elections for the new presidents of the House and Senate. The election takes place on the same day in which the new representatives and senators elected in October 2014 will be inaugurated. In the Senate, it is almost certain Renan Calheiros (PMDB-AL) will be reelected. In the House, the winner is not so obvious. There are four candidates running for president: Arlindo Chinaglia (PT-SP), Chico Alencar (PSOL-RJ), Eduardo Cunha (PMDB-RJ), and Julio Delgado (PSB-MG). However, only two are really competitive: Arlindo Chinaglia and Eduardo Cunha. Both belong to two parties allied with the government, the PT and PMDB, respectively. More importantly, the president of the Senate is also the president of the Brazilian Congress and is the number three position in the Republic's succession hierarchy. He occupies the presidential palace when President Dilma Rousseff and Vice President Michel Temer are out of the country. Congress will return from recess on Monday, February 2<sup>nd</sup>.

### CNI Legislative Agenda

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On February 3<sup>rd</sup> and 4<sup>th</sup>, the National Confederation of Industry (*Confederação Nacional da Indústria - CNI*) will hold its annual meeting to define the Industry Legislative Agenda for 2015. The event will include discussions on proposed priorities for the legislative topics and a panel on the "Political and Economic Scenario and the Agenda for the Legislative Branch in 2015" with representatives and senators.

## Task Forces

### Trade & Regulation

**Petrobras' 3<sup>rd</sup> Trimester Balance:** On Wednesday, Petrobras released its 2014 third quarter account balances after twice postponing. However, the account balances contain neither the independent auditor's report nor the write-off related to the alleged kickback scheme. The release aims to fulfill debt obligations, since creditors could ask for early debt repayment if Petrobras has not released the financial report by the end of January.. The deadline for the fourth quarter balance is April 1st, and Petrobras faces similar problems of early debt repayment and a suspension from operating in the stock markets if it fails to meet the deadline.

The write-downs reportedly may vary from BRL\$ 4 billion to BRL\$ 67 billion, depending on the methodology used to calculate them. The company admits that adjustments to the financial statements are necessary to correct for possible earnings misstatements. Petrobras President Graça Foster understood that both methodologies used to calculate the company's potential losses from the corruption scheme were inadequate; therefore, Petrobras chose not to publish the write-downs and is evaluating other methods.

**BRICS Business Council:** The National Confederation of Industry (*Confederação Nacional da Indústria – CNI*) will hold an event on February 10 entitled "Roundtables with Brazilian Government Leaders" for the annual meeting of the BRICS Business Council. With representatives from Brazil, Russia, India, China and South Africa, the event aims to bring together business leaders interested in cooperation and in doing business, as well as discussing topics related to: (i) business environment, business travel, and investment; (ii) trade in local currencies and the new development bank; and, (iii) logistics, connectivity, and technical standards.

### Innovation

**Internet Framework Bill Regulation | Draft Bill on Personal Data Protection:** On Wednesday, two websites were launched to gather contributions for the Draft Bill on Personal Data Protection (<http://participacao.mj.gov.br/dadospeessoais/>) and for the Internet Framework Bill regulation (<http://participacao.mj.gov.br/marcocivil/>). **The public comment period for both will be 30 days starting 1/28/2015.** This deadline could be extended.

The public comment period on the Internet Framework Bill regulation is divided into:

- » **Net Neutrality** will cover specific exceptions on the net neutrality principle, which will likely be limited to essential technical requirements for the proper provision of services and applications and prioritizing emergency services;
- » **Privacy** will address principles and rules, as well as specific safety and transparency of procedures;
- » **Log Registry** will cover procedures related to those responsible for keeping records;
- » **Other issues and considerations:** It will be possible to suggest clarifications and contribute on other issues addressed by the law.

Also, the National Telecommunications Agency (*Agência Nacional de Telecomunicações – Anatel*) has created a working group on net neutrality to support the public comment period. According to the law, the Agency must be heard on the net neutrality regulations.

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The personal data protection draft bill is almost the same as the one submitted for the public comment period in 2011. However, some changes were made to update the text, especially on eavesdropping cases. This draft bill gives definitions for personal data, anonymous data, sensitive data, consent, and data centers, among others.

## Healthcare

**Anvisa International Efforts:** On Monday, Jaime César Oliveira, Brazilian Health Surveillance Agency's (*Agência Nacional de Vigilância Sanitária - ANVISA*) interim general-director, indicated that there is a strong intention to integrate Anvisa with other international health surveillance agencies and "to move from an information sharing to a work sharing method."

Since 2012, through the International Coalition of Medicines Regulatory Authorities (ICMRA), this work sharing goal has started to become a reality. ICMRA is composed of the regulatory agencies' leaders of various countries, to conduct shared decisions and processes. Brazil has a leading role in the coalition and is part of a pilot project along with Australia, Canada and the United States called the Medical Device Single Audit Program (MDSAP). This program would allow auditing organizations to conduct a single audit for medical devices that would meet the regulatory authority's requirements.

**Health Services Working Group:** On Tuesday, Anvisa created a Working Group with the aim of creating the Plan to Monitor and Investigate Adverse Events in Health Services for the National System of Health Surveillance (*Plano Integrado de Monitoramento e Investigação de Eventos Adversos em Serviços de Saúde para o Sistema Nacional de Vigilância Sanitária - SNVS*).

The working Group responsibilities are:

- ✓ Help development the Monitoring and Investigation Plan;
- ✓ Develop strategies for the plan's implementation;
- ✓ Advise and monitor implementation of the plan in different states;
- ✓ Produce educational materials for implementation and monitoring of the plan;
- ✓ Assist in national research and monitoring of adverse events associated with healthcare.

Anvisa's Management of Surveillance and Monitoring in Health Services (*Gerência de Vigilância e Monitoramento em Serviços de Saúde - GVIMS*) will coordinate the Working Group. Its mandate will end in 36 months, at the latest.

# The Pulse

## President Rousseff Offers Little Clarity in Her First Public Speech

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On February 28, President Dilma Rousseff made her first public speech before her cabinet since being inaugurated president on New Year's Day. There was some doubt that she would waver on her support for a serious fiscal adjustment, which is widely viewed as essential for the long-term growth of the economy. She reiterated her conviction to move ahead with the policy adjustments necessary to reverse rising fiscal and trade deficits and tame inflation, while at the same time reassuring the public that social programs would not be compromised.

The speech seemed to reassure many that she would support her economic team, although her statements were viewed as vague, imprecise, and lacking reference to her policies in her first term, which have contributed to the economy's deterioration. The real problem, however, is the continuing incongruity between

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her words and her actions. For instance, it seems probable that one of the announced measures to reduce some unemployment insurance benefits will be reassessed, after the national unions, which are traditionally aligned with the Workers' Party, displayed their discontent with it. Indeed, most of the intended measures have not been detailed, and there is growing concern that the 1.2% fiscal surplus for 2015 will not be achieved unless investments are dramatically cut, with the likely impact of an economic recession by the end of the year.

Another issue where discourse and action by President Rousseff do not match is the commitment to combat corruption, which she strongly emphasized as a priority for her government in her address to the cabinet. However, yesterday marked one full year since the anti-corruption bill was signed into law, and regulations have yet to be written or approved, reducing the efficacy of the law.

President Rousseff's behavior on many issues, including the Petrobras scandal, has amounted to a troubling zigzag. This could be why this week's address to the Cabinet did not generate an enthusiastic response from the public. Although she said what most expected, her actions have not been aligned with her statements.

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