

**POLICY
MONITOR**

November 04 – 08, 2013

The Week in Review

ON THE ECONOMIC FRONT

BUSBC Advocacy Mission: Over thirty Brazil-U.S. Business Council members participated in this year's annual advocacy mission to Brazil. The delegation held productive meetings with PATRI, the U.S. Embassy, various ministries, and Congress. *Policy Monitor's next edition will provide an overview of the mission in the Pulse section.*

Primary Deficit: In September, the primary deficit – public sector expenses - registered BRL\$ 9 billion. It shows the difficulty of the Administration to balance public accounts. For 2013, the primary surplus target is BRL\$ 110.9 billion.

Exchange Flows: For the fifth month in a row, Brazil had a negative exchange flow, totalling US\$ 6.2 billion for the month of October. It was the highest deficit since December 2012. The exchange flow balance from January until November 1st was negative at US\$ 5.361 billion. The financial sector accounts for the increase of dollar outflows in the period.

Export Customs Clearance: The Brazilian Revenue Service automated electronic document delivery and reduced the demands on clarifications aiming to speed up the export customs clearance process. Currently, the process takes approximately 3 days and 5 hours total, and the expectation is to reduce that time to approximately two days. The declaration of export (DE) will have to be sent to the Revenue Service only for goods which require customs review (orange and red channels). For those goods exempted from review (green channel), the clearance will be automatic.

Engineers in Demand: A study released by the Institute of Applied Economic Research (IPEA) affirmed that there is no risk of a shortage of engineering professionals in Brazil– contrary to common criticism in the country. The number of engineers in the workforce is still lower than other professions, but it has been increasing since 2000 and is trending higher in the short and medium-run with the graduation of new professionals, as well as with the offer in the labor market. The risk of a shortage is more likely in the case of a weakening economy, which could lead to the outflow of these professionals.

ON THE POLITICAL FRONT

Internet Legal Framework Bill: On Tuesday, the rapporteur Rep. Alessandro Molon presented a new draft of the Internet Legal Framework bill. Following President Rousseff's instructions, the new draft states that the Executive may require companies to set up data centers in Brazil to store personal user information. Also this week, the President signed a decree mandating that all communications and data storage of the federal government will be conducted by bodies or entities of the government. *See more below.*

Consumer Protection: The National Secretariat of Consumers launched a campaign to increase public awareness, about the rights and obligations of consumers. The measure is aimed at Brazil's growing middle class, which now includes over 50% of the population, and is another sign of strengthening consumer protection under President Rousseff's Administration. The Secretariat also created a [homepage](#) to provide further information to consumers.

Telecom Board: President Rousseff has nominated for the names of João Batista Rezende and Igor Vilas Boas de Freitas to the Board of Directors of the National Agency of Telecommunications (Anatel). Rezende is an economist and has been a member of the Board since 2009 and president of the Board since 2011. Freitas is an electrical engineer, a career legislative consultant in the Senate, and was previously Director of the Department of Industry, Science, and Technology at the Ministry of Communications (2005-2008), and advisor to the former director of Anatel, Emilia Villas Boas (2008-2009).

Brazilian Ambassador to Venezuela: Ambassador Ruy Carlos Pereira was nominated Brazil's Ambassador to Venezuela. Previously, he served on the Brazilian delegation to the Latin American Association of Integration (ALADI) and Mercosur in Montevideo, Uruguay.

Quote of the week

"I was going to travel. We said there was only one way to solve the problem, and it was an apology for what happened and a promise that it would not happen again." President Rousseff on the postponement of her visit to the U.S. due to espionage allegations.



Government

Internet Legal Framework

On Tuesday, the rapporteur Alessandro Molon presented a new draft of the Internet Legal Framework bill. Following President Rousseff's instructions, the new text says that the Executive may require companies to set up data centers in Brazil to store personal information of their users. The specific regulation on the data center requirement would be done through a Presidential Decree. On net neutrality, the new draft provides that the user will have the right to be indemnified by the providers of connection if the discrimination of the data traffic causes damages, independently of guilty.

On Wednesday, the House of Representatives held a meeting of a general commission with members of congress, business leaders, and civil society to discuss the Internet Legal Framework bill. PMDB, the country's largest political party and a Rousseff ally, opposes requiring data centers to store consumer data in the country and supports the telecom industry's position that they should be allowed to charge proportionally for the services that demand more data traffic.

Molon's draft is expected to be voted on the House the next week, on Tuesday and Wednesday. Eduardo Cunha, PMDB leader, affirmed that it will be voted on November 19th. The draft then heads to the Senate for analysis. If the Senate changes the text, it returns to the House.

This week at the Senate, during a public hearing of the Parliamentary Committee of Inquiry, telecommunications companies stressed that they did not commit espionage and that they followed Brazilian legislation. A public hearing with representatives of the Internet companies will also be scheduled.

Mobile Payment

The National Monetary Council and Brazil's central bank have officially published resolutions and circulars regarding the regulation of the legal framework on mobile payments ([Law 12.865/13](#)). This process of regulation must be extended for two years. These first legal texts set rules for financial institutions. To be regulated later is the relation among telecommunication services companies, end users and the financial system.

- » [Resolution 4.282/13](#): provides guidelines for financial institutions and payment arrangements*;
- » [Resolution 4.283/13](#): sets principles for payment institutions;
- » [Circular 3.680/13](#): rules for payment accounts;
- » [Circular 3.681/13](#): rules for risk management;
- » [Circular 3.682/13](#): rules for the provision of payment services;
- » [Circular 3.683/13](#): rules for the authorization process for establishment and operation of payment services by financial institutions and others authorized by the central bank.

These Resolutions and Circulars will come into effect in 180 days, starting on November 6th. The use of pre-paid cards, credit cards, and electronic currencies has their own regulation, and payment transactions may be made without the intermediation of financial institutions.

**Payment arrangement means a set of rules and procedures on the provision of a payment service to the public accepted by more than one recipient, by means of direct access by end users, payers, and recipients.*

Political Reform

On Tuesday, the Working Group for Political Reform held its last meeting and put forward a Constitutional Amendment Bill (PEC) with the main topics agreed to below:

- » Electoral system - Changing the circumscription from state to regional;
- » Campaign financing – Proposes the transfer to the political parties the responsibility of choosing the financing model adopted by its candidates.
- » New parties – Proposes the reduction of the number of signatures required to create a new political party. It now requires 492,000 signatures. The reduction proposed is to 246,000.
- » Other topics of concern: end of reelection; end of coalitions in proportional elections; creation of Partisan Federations; coincidence of elective mandates, and of the dates of the elections.



The bill was sent to the Speaker of the House, Rep. Henrique Eduardo Alves, who will confer the required signatures and then send it to the Constitution and Justice Committee, thereby initiating the legislative process.

Trade

Antidumping

The Foreign Trade Board (CAMEX) published [Resolution 93/2013](#) applying definitive antidumping duties on Brazilian imports of ethanolamine (Mercosur code NCM 2922.11.00) and triethanolamine (Mercosur codes NCM 2922.13.10 and 3824.90.89) from the U.S. and Germany for five years. These substances are used as inputs by the cosmetics industry in hair dyes, shampoos, conditioners, makeup, creams, cleansing lotions, perfumes, and other items.

Health

Salt in Food

The Ministry of Health and the Brazilian Association of Food Industries (ABIA) signed a fourth agreement on the reduction of sodium in food. The agreement encompasses dairy products, sausages, and prepared soups. Participation is voluntary, and supervision will be done by the nutrition data on labels as well as laboratorial analysis. The other agreements included guidelines for instant noodles, loaves of bread, potato chips, cakes, mayonnaise, biscuits, margarine, and cereal, among others. The reduction of sodium is one of the goals included in the Plan for Confronting Chronic Non-communicable Diseases, launched by the Ministry of Health in 2011.

Energy

Pre-Salt

On Thursday, director appointments to the state-owned company Pré-Sal Petróleo S.A. were officially published. The company was created by the government earlier in the year to defend the country's interest in contracts of pre-salt block exploration. PPSA will be responsible for the management of the pre-salt sharing contracts. Below is the composition of the PPSA directory, which has a 3 year mandate:

- » **Oswaldo Pedrosa – President of PPSA**
Mechanical engineer, retired from Petrobras and former executive of HRT oil company. Pedrosa joined Petrobras in 1973 and served for 25 years in CENPES. He was also Superintendent of Production Development of ANP until 2003. He has worked for various private companies including Quantra, Aurizônia and Potióleo.
- » **Edson Nakagawa – Technical and Inspection Director**
Civil Engineer. He worked at Petrobras for 20 years. Between 2000 and 2012, he was in Australia, where he led research on oil and geothermal at the Commonwealth Scientific and Industrial Research Organization (CSIRO). Before being invited, he had been working as the head of the center of excellence in subsea systems of GE.
- » **Renato Matos – Director of Contract Management**
Geologist. Worked at Petrobras until 2001. He worked in several private companies, including Aurizônia, Quantra and Imetame.
- » **Antônio Cláudio Pereira da Silva – Director of Management, Control and Finance**
Graduated in accounting and administration. He worked at Petrobras from 1976 to 2011. He had been working as director (CFO) Bar Energy Oil and Gas.

PPSA manager nominees were well-received by the market. The members of the Board have a 4-year mandate. The Board is currently composed of: Marco Antonio Almeida, president of the Board and Secretary of Oil, Gas, and Renewable Fuels, Magda Chambriard, General-Director of the National Agency of Oil, Gas, and Biofuels (ANP), and Antonio Silveira, Minister of Ports.

Customs warehousing procedure

[Decree 8.138/2013](#) authorized the application of customs warehousing procedure for goods destined to research activities and cultivation of oil and natural gas under conversion or construction in the country, contracted by companies abroad. The use of the regime requires authorization from the Brazilian Revenue Service.



The Pulse

The Current State of the Bilateral Relation by Carlos Eduardo Lins da Silva

The US-Brazil relationship has been historically good, if not intense at times. It has been marked by prolonged occasions of strong cooperation, such as during World War II, but also moments of deep disagreement, for example the period when Brazil struck a nuclear deal with Germany in the 1970s.

In the last two decades, relations between the two countries have been amicable and stable, with a fluid dialogue between Presidents Clinton and Cardoso, as well as between Presidents Bush and Lula. But they reached an unusually low level in 2010, when President Lula struck a deal with Turkey and Iran over the latter's nuclear project, to the great displeasure of the U.S. Administration.

Presidents Rousseff and Obama seemed to be following a steady path toward fostering a deeper relationship between the two countries, including the planned October 2013 state visit to the United States, the first in almost 20 years. Relations deteriorated following public revelations that the NSA had been spying on Brazil, including listening in on personal communications of President Rousseff.

President Rousseff reacted harshly, suspending the state visit and charging the United States with spying on other countries in a strong speech at the United Nations. Her stand, now reinforced by similar accusations by the leaders of Germany, France, and other countries, played well in Brazilian domestic public opinion, not a bad situation for a President facing reelection in the coming year.

The surveillance case also provided Rousseff with a good opportunity to improve her international profile, which has been very modest in the first three years of her first term. The issue of developing new international regulations under the UN umbrella for the internet and its applications could become a flagship issue for Brazil and Rousseff in the world arena.

The relationship between the governments of Brazil and the United States could become even more fragile if Brasilia decides to exercise its authority under the World Trade Organization dispute settlement panel to retaliate against the United States over a cotton dispute. The United States discontinued negotiated payments to Brazil, ostensibly because of the automatic spending cuts known as the sequester, and Brazil could make a decision to retaliate as soon as next month.

Despite these strains between governments, the people and business communities of the two nations maintain strong relations. The depth of exchange between citizens, companies, researchers, students, artists, tourists, athletes, musicians, and filmmakers of Brazil and the United States continues to flourish. Brazil, for instance, is likely to surpass Germany this year as the third largest sender of tourists, not counting Mexico and Canada.

The US government has recognized the importance of this engagement in responding to the rising demand for visa applications by reopening several consulates in Brazil, even during a period of intense budgetary constraint in the United States.

In Brazil, the Scientific Mobility Program, President Rousseff's pet education project, expects to send one hundred thousand undergraduate students to foreign countries, with the United States as the foremost destination.

Brazilian companies now own some flagships of American daily life, such as Budweiser, Burger King, and Heinz, and several Brazilian multinationals are well-established in the United States in several economic sectors. American companies view the emerging Brazilian market as a major opportunity for growth, and continue to invest in it as many have done for decades because it is a secure, although challenging, business environment.

Therefore, the surveillance issue, although a significant nuisance, is unlikely to interfere with good business relations between the two countries.

