

The Week in Review

ON THE ECONOMIC FRONT

Airport Concessions: Last Friday, the government held an auction for the privatization of the Galeão (RJ) and Cofins (MG) airports. The Galeão, international airport of the city of Rio de Janeiro—host city of the Olympic Games in 2016—garnered an offer 239% higher than the minimum requested by the government. *See more below.*

Interest Rates: The Central Bank's Monetary Policy Committee (COPOM) raised interest rates half a percent to 10% a year. This is the sixth hike this year. The next meeting is in January.

Stock Exchange: According to the Central Bank, the stock exchange was valued at US\$ 3.8 billion in November. The exchange operations related to exports and imports were credited with the positive figure. It does not change the result for the year which is negative by US\$ 2.193 billion.

Unemployment Rate: In October, the unemployment rate dropped from 10.2% to 9.8% in comparison to September. The services sector was responsible for the creation of 56,000 jobs. The data is from the Inter-Union Department of Statistics and Socioeconomic Studies (DIEESE). Data released by the official Brazilian statistics agency (IBGE) last week is in contrast at 5.2%.

Fuel Price Readjustment: After lengthy discussions within President Rousseff's Administration, Petrobras' board of directors announced a hike in fuel prices in the range of 5%-6% for gasoline and 10% for diesel, and even higher for refineries. The creation of a formula to readjust fuel prices automatically and periodically will be postponed.

12th bidding round: The bidding round held on November 28th resulted in the concession of 72 out of 240 onshore exploration blocks with potential for shale gas in seven basins for 12 companies - 4 foreigners and 8 nationals. Petrobras won most of the blocks as operator in 43 of the blocks and as partner in 6. *See more below.*

Economic Forecast 2013	
Inflation	5.82%
Interest rate (Selic)	10.00%
GDP	2.5%
Trade Balance	US\$ 1.4 bi
Exchange rate (Dollar)	BRL\$ 2.30
Foreign Direct Investment (FDI)	US\$ 60 bi

Source: Central Bank

ON THE POLITICAL FRONT

W.T.O. Cotton Case and Retaliation: The Foreign Trade Board (CAMEX) postponed the Council of Ministers meeting that was scheduled for November 27th to December 18th due to incompatibility in the ministers' agendas. The postponement allows additional time for the two countries to negotiate. *See more below.*

President Rousseff on 2012 GDP: In an interview with Spanish newspaper *El País*, President Rousseff stated that Brazil's economy actually grew 1.5% last year, not the reported 0.9% per cent. The controversial statement led to a response by Brazil's statistics agency (IBGE) which declined to confirm whether it was in fact true. The presidential staff said that President Rousseff's estimate was based on preliminary studies by the Finance Ministry.

Executive – Legislative relations: President Rousseff expressed dissatisfaction with the House Constitution Committee's decision to split the bill that creates the mandatory budget. The Administration will appeal to the Supreme Court if the House approves only the provision in the bill that makes the approval of parliamentary amendments obligatory. The deadlock may make voting on the 2014 Budget more contentious.

Internet Legal Framework: The lack of agreement on the Internet Legal Framework bill which has been blocking the House agenda since mid-October due to its urgency regime has in fact being useful to the Administration as it has prevented the vote of bills which could damage public accounts by either increasing expenditures or decreasing revenue collection.

End of secret parliamentary voting: This week, the Senate approved Constitutional Amendment Bill 13/2013 which establishes open voting on presidential vetoes and dismissals. The vote on nomination for members of regulatory agencies and the executive branch continue to be secretive.

Unhealthy food and drugs: The National Agency for Health Surveillance (Anvisa) approved a regulatory review of Resolution 24/2010 related to the advertising of unhealthy foods and Resolution 96/2008 related to the advertising of drugs.

Stadium Accident: An accident at the Corinthians Arena, the São Paulo soccer stadium set to open the 2014 World Cup, killed two workers and may delay the construction of the stadium for 30 days. This is the fourth accident during the construction of the stadiums where next year's games will take place.



Trade

Cotton Case

Claiming incompatibility in the ministers' agendas, the Foreign Trade Board (CAMEX) meeting scheduled for Wednesday was postponed until December 18th. Although the agenda was not previously disclosed, expectations were high that a possible retaliation against the U.S. due to the ceasing of payments to the Brazilian Cotton Institute (IBA) was going to be discussed. The U.S. has halted monthly payments since October due to the sequester, according to the U.S. Department of Agriculture.

The agreement signed by the two countries following Brazil's victory in a World Trade Organization (WTO) dispute states that monthly payments to Brazil should continue until the U.S. Congress decides on a new Farm Bill. In 2010, before the agreement was in place, CAMEX released a list of goods on which import tariffs would be raised as a retaliatory measure. The list included cosmetic items, home appliances, and other items.

This week, the IBA sent CAMEX a study concluding that both the U.S. Senate and House farm bills going to conference create even more distortions in trade between the two countries than the subsidies programs in the 2008 bill, which led to the dispute in the first place.

With no solution in sight, the postponement of the CAMEX meeting will allow more time for bilateral discussions on the issue.

Drawback Regime

The Ministry of Development, Industry, and Foreign Trade (MDIC) published [Ordinance 48/2013](#) altering provisions on the drawback regime ([Ordinance 23/11](#)) on foreign trade operations. The changes concern exceptional extensions for concessional acts of drawback in the suspension modality given in 2013.

The suspension modality of drawback is a suspension of tax payments on the import of goods intended for manufacture, completion, or other packaging of exported goods.

Government

Internet Legal Framework

This week, the administration and members of Congress held two meetings to discuss the Internet Legal Framework (*Marco Civil da Internet*) bill which has been blocking the House agenda since mid-October.

There is still no agreement on the final text of the bill or when the voting will take place. The rapporteur of the bill, Rep. Alessandro Molon (PT/RJ), is negotiating the text of its final report with Congress, which may be introduced in the coming days.

The leader of the government at the House Rep. Arlindo Chinaglia (PT/SP) stated that if there is no agreement between the parties, the bill will not be voted on this year.

Data Storage

The Brazilian Superior Court of Justice (STJ) decided on a Yahoo! case to establish a three-year deadline starting on the date of service termination as the minimum period that internet service providers must keep user information.

According to the rapporteur of the process, Minister Nancy Andrighi, the provision of user data is similar to the presentation of documents; as such, data must be preserved by the applicable deadline for lawsuit filings for damages.



It is worth noting that the Court's decision is restricted to parts of this process. This case has no binding effect. However, it is indicative of the Court position on similar cases.

Internet Privacy

The United Nations (UN) draft resolution on "The right to privacy in the digital age" was approved by consensus at the 3rd Commission on Human Rights with the support of 55 co-sponsoring countries on Tuesday.

If approved by the UN General Assembly, the UN High Commissioner for Human Rights will have two years to report on the protection of the right to privacy against the use of domestic and extraterritorial monitoring tools of communication.

The draft resolution was presented to the UN by Brazil and Germany in early November 2013 following N.S.A. allegations of espionage in Brazil.

Tax & Investments

Services Tax

On Wednesday, the Senate approved bill 386/12 establishing a two percent minimum for the ISS local services tax. The tax has been under scrutiny as municipalities offer tax incentives for companies and end up charging below the two percent minimum. The bill now goes to the House. If approved, it will likely end a period of tumultuous debate in the fiscal war going on between states and municipalities within the country. The debate on the state VAT tax (ICMS) is nowhere near an end.

Energy

12th Bidding Round

The bidding round held on November 28th finished ahead of schedule with 72 of 240 onshore exploration blocks sold with potential for unconventional (shale) gas in seven basins for 12 companies total, four foreign and eight national. Twenty-one companies from 11 countries qualified to participate in the auction. Of the blocks sold, 70 were in basins in the state of Parana revealing a high concern with the infrastructure for draining the natural gas. The total amount raised is of BRL\$ 165.1 million in signing bonus with a premium of 755.95%. The local content was 72.61% for the exploration phase and 84.47% for the development phase.

As expected, Petrobras won most of the blocks as operator in 43 and as partner in 6. The National Agency of Oil, Natural Gas, and Biofuels (ANP) was positively surprised with results, since the bonus to be paid was 8.5% higher than the minimum expected. The lack of infrastructure in the basins was the main reason for low investor interest.

Regulation on ethanol production

The National Agency of Oil, Natural Gas, and Biofuels (ANP) published a Request for Proposal (RFP) on changes in some provisions of Resolution 26/2012 which establishes the regulation and authorization by ANP for ethanol production. The Agency received only six objections, four from the Brazilian Sugarcane Industry (Unica) and two from Granbio, a national biotech company.

The public hearing occurred on November 22nd. The objections will now be analyzed by ANP experts. Director Waldyr Barroso is responsible for drafting a text of the vote on the process and submitting it to the Board for amendment. The likelihood of the final resolution being published until the end of the year is low, but more likely in January.



The Pulse

Airport Concessions: the most successful government auction

An important part of the Rousseff Administration's agenda is to expand Brazil's precarious infrastructure. The results of the first rounds of bidding for roads and railways did not wow investors or the government. As for oil and gas, the results were mixed for different audiences. The 11th bidding round held in May, following five years of no rounds, was positive, whereas the first pre-salt bidding round saw fewer companies interested than what the government expected. Undoubtedly, however, the two auctions for airport concessions were extremely successful.



The first round, held in February 2012, auctioned off the airports of São Paulo, Brasília, and Campinas for a total of BRL\$24.5 billion. The second, held on November 22nd, sold the international airports of Rio de Janeiro (Galeão) and Belo Horizonte (Confins) for BRL\$20.8 billion.

Rules for concession were similar in both rounds. The government company Infraero will control 49% of all airports, and concessions can only be renewed once.

	GRU São Paulo (SP)	VCP Campinas (SP)	BSB Brasília (DF)	GIG Rio de Janeiro (RJ)	Confins Belo Horizonte (BH)	
Minimum value (in billion reais)	\$3.4	\$1.5	\$0.58	\$4.8	\$1.09	
Value sold (in billion reais)	\$16.2	\$3.8	\$4.5	\$19	\$1.8	
Premium	373%	159%	673%	293%	66%	
Concession period (in years)	20	30	25	25	30	
Winning consortium	Invespar and ACSA	Triunfo (45%), UTC (45%) and Egis (10%)	Infravix (50%) and Corporacion América (50%)	Odebretch (60%) and Changi (40%)	CCR (75%), Flughafen Zurich (24%) and Flughafen Munich (1%)	
Total passengers in 2012 (in millions)	32	8	15	17	10	Country Total: 193 million
Total aircrafts in 2012 (in thousands)	273	115	180	154	120	Country Total: 3 million

