

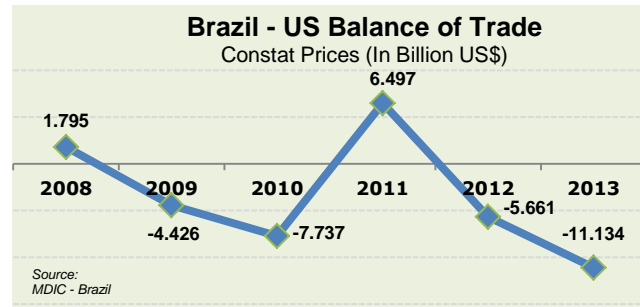
**POLICY
MONITOR**

February 03 – 07, 2014

The Week in Review

On The Economic Front

Trade balance: Brazil posted a trade deficit of BRL \$ 4.06 billion in January, according to the Ministry of Development, Industry and Foreign Trade (MDIC). It is the largest gap on record as exports fell and imports of consumer and capital goods increased. The graph highlights Brazil's growing trade deficit with the United States.



Industrial Production: December monthly industrial output fell by 3.5% compared to 0.3% in November, the steepest monthly decline in five years, according to IBGE. Capital goods production fell 11.6%, while durable consumer goods output declined 3% and intermediate goods fell 3.9%.

Power Outage: On February 4, a blackout affected 13 states, including parts of São Paulo and Rio de Janeiro, leaving as many as 6 million Brazilians without energy for 30 minutes. The Administration blames "hydric stress", or drought conditions, as Brazil faces the driest summer in 60 years, and a surge in demand. While Brazil could suffer more short-term outages in the coming months, it does not face the same risk of massive blackouts as it did in 2002.

Delinquency rate: Brazil's two main privately owned banks – Itaú and Bradesco – saw monthly delinquency rates fall to the lowest level in five years in December, to 3.7% and 3.5%, respectively, as they have become more selective in extending new credit.

On The Political Front

The Cabinet Reshuffle: As expected, President Dilma Rousseff began a cabinet reshuffle to replace ministers who will run for public office in the October general elections and also to accommodate key political allies. Former Education minister Aloizio Mercadante stepped in as chief of staff, replacing Gleisi Hoffmann, who will run for governor of the state of Paraná. The other three new ministers are: José Henrique Paim, Education; Arthur Chioro, Health; and Thomas Traumann, Secretariat of Social Communication.

Presidential Address – Highlights:

President Rousseff delivered her annual message to Congress. Highlights include:

- » The Administration pledges to maintain fiscal responsibility, control inflation and urges Congress not to pass bills that would increase spending
- » New ministers are expected to meet the administration's goals and commitments to improve public services
- » Brazil should lead global policies aimed at reducing inequality



Eduardo and Marina: Government program broad guidelines: The governor of the state of Pernambuco, Eduardo Campos, and Marina Silva, an environmental activist and former minister, launched their platform guidelines for the presidential election. The 12 points platform includes an industrial policy based on innovation and productivity gains; increased use of renewable energy; and political reform. Marina, who joined Campos' PSB in 2013 after failing to get her new party Rede registered, said she will run as the vice-presidential candidate and Campos will be the head of the ticket.

Task Force

Energy and Green Technology:

- » **Transmission gridline for Belo Monte Dam** - The Federal government will auction Belo Monte's hydroelectric power plant's (HPP) transmission system this Friday. The winner is expected to invest BRL \$5 billion to build a 1,300-mile line between the states of Pará and Minas Gerais.

Innovation:

- » **Public hearing / Figueiredo** – On Thursday, Foreign Affairs Minister Luiz Alberto Figueiredo participated in a public hearing in the Senate's Foreign Relations and National Defense Committee to discuss Brazil's external affairs strategy for 2014. Highlights include:
 - » Besides a standard foreign policy agenda, the Foreign Ministry will also focus on other issues such as Internet governance
 - » Brazil has proposed a new framework for online privacy at the UN aimed at preserving both freedom of expression and user rights
 - » In April, Brazil will hold a meeting in São Paulo to be attended by both government and non-government actors to discuss Internet governance
- » **Internet Framework Bill** - Top priority in the administration's legislative agenda, the bill ([PL 2126/11](#)) is expected to be voted on in the House next week. The current text keeps controversial provisions, such as data registration, local data storage, and the "notice and take down" demand. On net neutrality, the new draft provides that the user will have the right to be indemnified by the connection service providers if the discrimination of data traffic causes damages, regardless of whether culpability is demonstrated. **Next step:** If approved by the House, the bill will be sent to the Senate's committees for discussion, followed by a floor vote in the Senate.
- » **Health and Research** - The ministry of Health published seven ordinances this week that create seven national research networks on: cardiovascular diseases; neglected diseases; cancer; health policy; cell therapy and cerebral vascular accidents. All of these will be made up of public and private institutions of science, technology, innovation, and production in health services. They also create and fund a Referral Service Institution for the diagnosis and treatment of cancer, precursor lesions of the cervix (SRC) and breast cancer (SDM).

Tax and Investment:

- » **Tax Reform** – The Provisional Measure ([MP](#)) [627/13](#) introduced by the government last November alters important provisions of the Brazilian taxation system, such as basic accounting rules that will affect all companies operating in Brazil. The MP is in effect until April 21, 2014 and requires legislative actions to be made permanent. It is a controversial measure, with 513 amendments offered to the bill, and is expected to be voted on by both houses of congress before the MP expires.

Trade and Regulation: ANVISA

- » **Revamp:** The National Health Surveillance Agency (ANVISA) published ordinance [nº 136 01/31/14](#), which alters the organizational structure of the agency by creating nine superintendents. ANVISA also published ordinance [nº 138 01/31/14](#), which defines the organizational link between the new superintendents and their members.
- » **Notification Process:** The Board of Directors approved, through [Order nº 15 of February 4](#), the Initiative of Regulatory Practices that will amend resolution RDC 222/2006 regarding the notification process for cosmetics, sanitizers, food, and drugs. Anvisa is drafting the amendment that could be put forward for public consultation. Resolution 222/2006 provides for the procedures for application and electronic fees collected by ANVISA and its state and local health surveillance coordination.



The Pulse

The Farm Bill and WTO Cotton Case

On February 7, President Obama is scheduled to sign into law the 2014 "Farm Bill." It is hoped that changes to the cotton subsidy programs will lead to a final resolution with Brazil over the World Trade Organization (WTO) Cotton Case against the United States. CAMEX is scheduled to meet as planned on February 20th, but it is likely that any final decision on possible retaliation will be postponed beyond the end of February while the United States and Brazil continue consultations over implementation of specific provisions in the Farm Bill. During his visit to the United States last week, Brazilian Foreign Minister Figueiredo indicated that any action on sanctions will likely be pushed back by 60 days.

The Farm bill repealed direct and counter-cyclical payments and made reforms to other programs that were cited as contrary to U.S. commitments to the WTO, but there are a number of issues that have been addressed but not completely resolved from Brazil's point of view. Although Brazil has not formally responded to the Farm Bill, much depends on its reaction to modifications in the marketing loan program, the cotton-specific revenue insurance program (Stacked Income Protection Program -- STAX), continued transitional payments for two years, and the GSM 102 Export Credit Guarantee program. On GSM 102, the Farm Bill has a key provision that allows the U.S. Department of Agriculture (USDA) to negotiate with the Brazilian Ministry of External Relations on further changes to the program. The Farm Bill also includes a provision that could broaden the scope of use of payments to the Brazilian Cotton Institute to include research and development in partnership with U.S. entities, but it is silent on the past due payments.

The legislation made clear that "the Managers intend that these reforms lead to a negotiated resolution of the dispute." The law provides some flexibility to address Brazilian concerns, but Brazil, nonetheless, still has authority under the WTO to retaliate against the United States should a mutually-agreed solution fail to materialize. The Brazilian Foreign Trade Council (CAMEX) restarted the retaliation process in December 2013, and is expected to meet on February 20 to make a recommendation to President Rousseff on possible retaliation against goods and intellectual property rights obligations.

Brazilian Foreign Minister Luiz Alberto Figueiredo met with United States Trade Representative Michael Froman on January 30 to discuss the Farm Bill. Upon his return to Brazil, Minister Figueiredo had a late Friday afternoon meeting with President Rousseff, and reportedly discussed a strategy for addressing the Farm Bill during the 60-day period, even as the CAMEX process continues to move ahead. On February 6, Minister Figueiredo reconfirmed in a public hearing before Brazil's Foreign Relations Committee that Brazil and the United States continue to dialogue in order to find a resolution that will meet both countries' interests. At the same time, Senator Waldemir Moka (PMDB/MS), member of the Committee on Agriculture and Agrarian Reform, requested a public hearing on the cotton case, with the date to be scheduled. We will keep monitoring developments on this case.

