

**POLICY
 MONITOR**

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The Week in Review

On The Economic Front

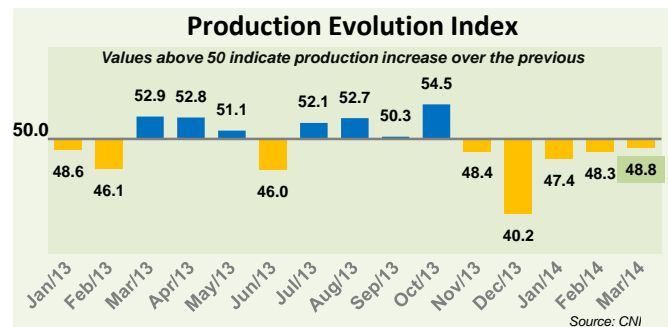
Industrial Survey: According to the National Confederation of Industry (CNI), both operating profit margins and financial conditions were considered unsatisfactory by entrepreneurs in the first quarter. The results were the lowest level since 2009. The overall outlook was marked by a negative perception over increasing interest rates and challenging credit access conditions.

Inflation Forecast: The Central Bank weekly poll of market analysts, *The Focus Bulletin*, indicates that inflation expectations rose again this week from 6.47% to 6.51%, a rate that would breach the 6.50% target ceiling. It is the highest *Focus* forecast this year. The Central Bank targets annual inflation at 4.50%, plus or minus two percentage points.

Emergency Energy Bid: The Administration will hold an emergency bid (Leilão A) aimed at contracting for as much as 3,000 megawatts of electricity for delivery in May, in an attempt to provide relief to the private sector. Energy producers currently receive high prices in the spot market, so the government is attempting to regulate the supply of electricity over the medium term through five-year contracts.

Drought I: According to the National Grid Operator (ONS), the water level of the Southeast and Midwest regional dams, which provide 70% of the country's hydroelectric water storage, will end April at 38.3% of maximum capacity. Previous ONS projections indicated that for sufficient hydroelectric generation to be assured until 2015, water levels would have to increase to 43% of maximum capacity by the start of the dry season at the end of April. The Administration, which has dismissed the need to adopt power rationing, has signaled that it will wait until then to decide about possible new steps.

Drought II: In São Paulo, Governor Geraldo Alckmin (PSDB) announced that the state water utility company Sabesp will start to fine households and firms that increase their water consumption in the Greater São Paulo area, where the Cantareira reservoir system now stands at less than 12% of maximum capacity. According to Sabesp, 24% of the 9 million consumers supplied by the Cantareira system have increased consumption despite a new program that awards tariff rebates of up to 20% to those who reduce consumption by at least 30%.



On The Political Front

Campaign Trail: On Tuesday, April 22nd, PSDB's National Executive Committee confirmed that Senator Aécio Neves will run as the Brazilian Social Democrat Party (PSDB) candidate for president. His candidacy must still be formally endorsed at the PSDB national convention scheduled for June 14. Quote: "This is and always should be a collective construction in favor of Brazil and the party, and I will not lack determination and courage to present a new agenda for Brazilians, where ethics and consistency can walk together," said Aécio. Meanwhile, candidate to the presidency for PSB, Eduardo Campos, and his candidate for vice-president, Marina Silva, initiated a tour to visit 150 cities in the country by June.

Petrobras I: Supreme Court (STF) Judge Rosa Weber decided on Wednesday that the scope of the Senate probe on Petrobras (CPI) should be limited solely to the alleged corruption schemes involving the



state owned oil company. The STF ruling favors the opposition because it excludes, as the Administration requested, investigating the alleged subway cartel in São Paulo state run by PSDB, and an alleged overpricing scheme in the construction of the Suape port in Pernambuco state, run by PSDB. Next step: Since the STF ruling was taken individually by Judge Weber, the Senate president Renan Calheiros (PMDB/AL) can request a decision by the full bench of the STF. However, given there is no deadline for a new STF ruling, the Senate will likely create an exclusive CPI on Petrobras.

Petrobras II: CEO Graça Foster has confirmed that she will testify at a House public hearing on April 30th for the second time about the controversial acquisition by Petrobras of the Pasadena Refinery System Inc. (PRSI). The request for Foster to speak was approved by the Committees on Foreign Relations (CRE), Economic Development (CDE), Oversight, and Control (CFC) following the release of new evidence that the Brazilian state-owned company could have avoided a US\$ 530 million financial loss had its former leadership accepted the offer by Astra Oil, a former partner at PRSI, to buy the Petrobras stake in the deal. The House has also approved requests inviting Petrobras' former CEO José Sérgio Gabrielli, Finance Minister Guido Mantega, General Attorney Luís Inácio Adams, and Nelson Cerveró, Petrobras' former director of the international area to explain the Pasadena deal. Cerveró recently attended a Senate hearing on the PRSI.

Car Wash Operation: On Wednesday, the Judiciary charged eight people with financial crimes including money laundering and illegal exchange rate operations in the so-called *Operação Lava Jato* (Car Wash Operation). Among the defendants is money changer Alberto Yousseff, charged with operating the alleged US\$ 4.5 billion scheme, along with construction companies contracted by Petrobras and politicians. The Federal Police are also investigating a related scheme involving the Health Ministry. Federal judge Sérgio Moro has yet to decide if he will charge Paulo Roberto Costa, former head of supply and refining at Petrobras. Costa, who retired in 2012, is the alleged ringleader. The Rousseff Administration says it is cooperating with the Federal Police and wants the case to be solved.

House Vice-Chairman Election: The House steering board scheduled the election of the new vice-chairman for next Tuesday, April 29th. The former vice-chairman, Representative André Vargas (PT/PR), resigned on April 9th following the opening of the House Ethics Committee disciplinary proceeding over allegations that he was involved in a money laundering and bribery scheme related to drug procurement and other illicit activities at the Health Ministry. These actions could be found to be a breach of parliamentary standards, and if the Committee accepts such findings, he could face impeachment. The case is being investigated by the Federal Police. Vargas also has been pressured by his own Labor Party (PT) leadership to resign as a federal representative. Quote: "For his [Vargas] own sake and for PT, he should resign," said PT president Rui Falcão.

Task Forces

Defense and Security

- » **Espionage Probe:** The Parliamentary Probe responsible for investigating alleged espionage by the NSA in Brazil introduced draft bill (PLS) 131/14 in the Senate, which outlines conditions under which data on Brazilian citizens or companies may be provided to foreign authorities or courts. The bill, which will only be analyzed on the floor of the Senate, may be subject to amendment until April 28th.

Energy and Green Technology

- » **Drones to Protect the Amazon:** According to *The Financial Times*, as part of the effort to combat deforestation, Brazilian municipalities are turning to drones as they prepare to implement the New Forest Code passed in 2012. Municipal authorities in the Amazon region are looking to use drones to map properties and monitor whether farmers and others are maintaining the minimum of forest cover required under the new forest code.

Innovation:

- » **Internet Framework Bill:** The Internet Framework Bill (PLC) 21/114 was unanimously approved by the Senate on Tuesday without any changes from the House-passed version. President Rousseff signed the bill into law on April 23rd at the opening of the NETmundial conference in São Paulo. Highlights: 1) Data localization: Removed from the text, but tech companies may still be subject to Brazilian rules in legal cases disputing data, even if stored in servers abroad; 2) Net neutrality: Internet providers will not be allowed to discriminate on price or access based on content; 3) Data privacy: Storage and availability of personal information must preserve privacy, limiting the data that online companies may collect; 4) Third party content: Internet providers are not liable for damage caused by third party



generated content; 5) Citizenship: Ensures Internet access as an essential element of Brazilian citizenship. (See more in *The Pulse*, below).

Tax and Investment:

- » **New Flights:** Azul Linhas Aéreas, Brazil's leading regional carrier, announced that it will begin flights in early 2015 from Campinas to Fort Lauderdale, Orlando, and NYC/JFK. The company announced it will lease six Airbus A330-200s to operate the new flights and add another five Airbus A350-900 jets starting in early 2017 as part of a \$2 billion deal. According to Reuters, the expansion will transform Azul, which is controlled by JetBlue Airways Corp founder David Neeleman, from a niche regional carrier into an international player directly challenging heavyweight Latam Airlines Group, which controls TAM, Brazil's leading air carrier.

Trade and Regulation:

- » **Foreign Trade:** The Administration published [Decree 8229/14](#), which establishes a Single Portal Program system for Foreign Trade that will unify agencies involved in authorizing exportation and importation in the country. According to the decree, the data must be reported to the Portal that will integrate current fiscal control, customs, and administrative systems in order to simplify the buying and selling of goods. CAMEX is the body responsible for overseeing the development and implementation of the Portal in coordination with the Management Committee SISCOMEX and agencies and entities of the federal administration.
- » **Retirement for Women Police Officers:** Contrary to the Administration's position, the House of Representatives passed a bill that would reduce the period of retirement contributions for women police officers from 30 years to 25 years. The text, which was presented in 2001 by former Senator Romeu Tuma (PTB/SP), moves next to presidential approval. The Administration's leader in the House, Senator Arlindo Chinaglia (PT/SP), voted against the bill arguing that the measure will increase welfare spending.

The Pulse

A clear political victory for President Rousseff, the new Internet law is a bill of digital rights that could be a blueprint of a future global chart. The talks have just started, but Brazil has already claimed a leadership role in cyber governance

The sweeping final approval of the Internet Framework Bill by the Senate stands as President Dilma Rousseff's largest 2014 Congressional Agenda victory so far amid an increasingly challenging electoral and economic outlook. In order to ensure its approval, Rousseff agreed to drop a controversial provision that would have mandated foreign Internet companies to build data centers in Brazil. Free of this rule, the new law, dubbed the "Internet Bill of Rights," establishes principles such as freedom of expression and data privacy rights. Following strong initial opposition from the telecom industry, the net neutrality clause was approved with a provision that allows providers to sell different speed connection packages without discriminating among content (video, image, or text). The net neutrality clause still needs a complimentary decree to be fully regulated and would require technical input from Anatel, the National Telecommunications Agency, and CGI, the Brazilian Internet Steering Committee.

The new law's timely approval was boasted by President Rousseff during the [Netmundial](#) conference, a global multistakeholder two-day meeting held in São Paulo this week to discuss the future of Internet governance. Co-hosted by Brazil and 11 other countries including the U.S. and Germany, NETMundial was attended by 85 country representatives. Since the Edward Snowden leaks on the National Security Agency (NSA) cyber espionage, Brazil has pushed for a leadership role in talks to build a new global Internet governance model with the new law as a blueprint. In a symbolic gesture, President Rousseff signed the new law during the event opening. "Brazil defends that Internet governance should be multisectoral, multilateral, democratic, and transparent. We consider this model the best form of exercise," said President Rousseff.

Although a non-binding event, NETmundial became an influential forum attended not only by governments, but also representatives of the private sector, civil society, and academia. President Barack Obama was represented by Michael Daniel, the White House cybersecurity coordinator. "We are here, most importantly, because we believe in this community's use of the multistakeholder institutions to enable successful Internet governance," said Daniel.



And he added, “But there are some who would like to use the recent disclosures about our signal intelligence programs as an excuse to upend the successful multistakeholder approach and the openness it promotes in favor of a state driven system that impedes it. We applaud NETmundial and the multistakeholder gatherings like it in their resistance to this challenge. There should be no doubt that we take seriously the concerns that have been raised about user’s trust as a result of the unauthorized disclosures, and as President Obama said in his January speech, we continue to undertake significant reforms in connection with our signals intelligence activities and are continuing to work to that end.”

In March, the U.S. took a significant step by announcing that the Internet Corporation for Assigned Names and Numbers (ICANN), responsible for addressing websites globally, would transition from the current U.S. controlling role to an international oversight body within 18 months. According to the *Financial Times*, Fadi Chehadé, president of ICANN, said that after U.S. control is handed over, it needs to “be replaced with clear strengths and clear safeguards” to ensure the continued openness of the Web. At NETmundial President Rousseff saluted “the U.S. government initiative to replace its institutional link with IANA [Internet Assigned Numbers Authority] with ICANN for a global management of these institutions.”

The NETmundial talks focused on five steps aimed at ensuring that both freedom and security should be guaranteed in the new framework. The steps can be summarized as follows: 1) Keep the Internet as a friendly innovation environment; 2) Promote Internet governance improvement, ensuring technical expertise as well as transparency and collaboration; 3) Promote Internet use as a tool to uphold basic human rights, such as the freedom of expression, privacy and information access; 4) Ensure openness in the Internet web architecture and technical standards, and; 5) Plan a road map to implement the Internet governance new framework.

The talks kicked off in São Paulo are a critical subject to be embraced by policymakers, the private sector, and civil society. Given the high stakes, it will take time for a new global framework to be built.

