

# The Week in Review

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## On the Political Front

### Nomination of Brazilian Ambassador to the United States Sent to Senate

On Friday, March 6th, President Rousseff sent to the Senate the nomination of Luis Alberto Figueiredo Machado to become the next Brazilian Ambassador to the United States. Figueiredo Machado was the Minister of Foreign Relations from August 2013 until January 2015. He was replaced as Foreign Minister by the previous Ambassador to the United States, Mauro Vieira, and is now awaiting confirmation by the Senate.

### Mining of Indigenous Lands

On Tuesday, the House of Representatives created a Special Committee to analyze [Bill \(Projeto de Lei - PL\) 1610/96](#), which would create a legal framework for mining on indigenous lands. Before the bill may be considered, 23 members will be appointed to the committee, the committee president will be elected, and the new president will nominate a rapporteur. Once the committee is installed, a new deadline for making amendments to the bill will be set.

The bill would establish that research and exploration of mineral resources on indigenous lands may only be performed with authorization from Congress, and only after the affected communities have had an opportunity to be heard. It would also require that the affected communities share mining profits and that the exploration of mineral resources on indigenous lands can only occur if there is a demonstrated national interest in the activity, as determined and authorized by the Ministry of Mines and Energy.

### Petrobras' Parliamentary Investigation Committee

On Tuesday, a former executive at Petrobras' services division, Pedro Barusco, testified before Petrobras' Parliamentary Investigation Committee (CPI) hearing. Barusco limited his testimony to information already provided as part of an earlier plea bargain. According to his statement, the Workers' Party (PT), the current ruling political party, received up to BRL\$ 200 million in kickbacks from contracts with the state-run oil company. Barusco further stated that he began receiving payments in 1997, and payments were subsequently increased in 2004. He said the treasurer of the Workers' Party, João Vaccari, and Petrobras' former services director, Renato Duque, also benefited from the kickbacks. In 2004, bribes began to be transferred to political parties, effectively making the operation "institutionalized" within Petrobras.

The hearing focused mainly on the operational aspects of the scheme. The opposition party, which had a majority in the hearing, questioned Vaccari's role in distributing the money, as well as who else from the government was involved and knew of the operation. According to Barusco, payments made in 2010 by contractors to Vaccari served to finance the PT's presidential campaign.

Another hearing took place on Thursday to receive testimony from Speaker of the House Eduardo Cunha (PMDB/RJ). He asked to testify after he was named in General Prosecutor Rodrigo Janot's list of politicians to be investigated for alleged involvement in embezzlement and inflated contracts with Petrobras. Cunha denied



participation in Petrobras' kickback scheme and received support from all party leaders and representatives present at the hearing. All of them supported him remaining as House Speaker and questioned the criteria used for including representatives name on Janot's list. Former president of Petrobras, Sérgio Gabrielli, also testified on Thursday. According to Gabrielli, corruption cases in Petrobras are not systemic and reflect only the acts of certain individuals.

## Task Forces

### Tax & Investment

**Changes on the Personal Income Tax:** On Wednesday, based on an agreement with Congress, the government published Provisional Measure 670/15 (PM), which will increase tax brackets for personal income. By adjusting the income brackets upward, individuals will pay less in taxes, providing them with greater disposable income but reducing government revenue. Under the agreement, the first two income brackets, including the lowest tax-exempt bracket, will increase by 6.5%. The remaining three income tax brackets will be increased by 5.5%, 5.0%, and 4.5%, respectively, a scale that reduces income tax liability relatively more for lower wage earners. The PM becomes effective April 1, 2015 with an estimated reduction in federal tax revenue of more than BRL\$ 6 billion. President Rousseff had vetoed earlier congressional attempts to raise the tax brackets, deeming them too expensive, but supported an agreement brokered between Minister of Economy Joaquim Levy and the presidents of the House and Senate. Minister Levy also reiterated that despite the revenue losses, the government remains committed to its fiscal adjustment goals.

### Trade

**Web Employer System:** On Thursday, the Ministry of Labor and Employment (*Ministério do Trabalho e Emprego* – MTE) established that the “Web Empregador” system will be mandatory for companies starting **April 1, 2015**. “Web Empregador,” or Web Employer, is an online system that companies must use to store worker dismissal and unemployment insurance benefit information to meet government requirements. The system was created by the ministry to accelerate this process. It is part of the e-Social project, which is a Federal Government program that aims to centralize employee information to simplify government reporting. It also enables cross-referencing worker information with other government databases to ensure greater accuracy and data safety in meeting government regulatory and other legal requirements and notifications.

**Public Bidding:** On Friday, March 6<sup>th</sup>, Representative Rômulo Gouveia (PSD/PB) presented Bill (PL) 614/15, which would increase the maximum period that prevents companies from bidding on public contracts from 2 to 5 years if they have been sanctioned. The bill must pass both House and the Senate committees to be approved. It is currently awaiting assignment to the appropriate House committee.

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# The Pulse

## March 15<sup>th</sup> Demonstrations Against Rousseff Administration

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The fiscal adjustment has hit Brazilians hard as seen in the falling purchasing power and sudden rise in unemployment from 4.3% in December 2014 to 5.3% in January 2015. Many sectors of society have already begun to protest the Administration's policies. On Sunday, March 15<sup>th</sup>, a social-media driven protest is being organized in dozens of cities around Brazil to demonstrate against recent policies of the Rousseff Administration. There are many possible facets to this protest, so its outcome is difficult to predict. Nonetheless, it will be an important event to watch, as it will gauge the breadth and depth of political backlash against the government. President Rousseff's approval ratings have plummeted since the election, falling from the low 40s to the low 20's according to polls released this February. This is due, in no small part, to her adopting austere fiscal measures contrary to the election platform she ran on in 2014, but which are widely seen as necessary to correct for poor policies she instituted in her first term.

However, despite this negative mood against her, all political parties and other institutions, such as unions and class associations, are also very unpopular and discredited among most Brazilians at the moment. Therefore, any effort of those groups to take the lead in Sunday's demonstrations may result in smaller crowds on the streets. It would seem that the more spontaneous the movement, the larger the number of people who will be involved, if the June 2013 protests are any guide. At that time, millions of Brazilians took to the streets in hundreds of cities for almost one week, with little previous organization from any traditional political group. Something similar occurred last Sunday during President Rousseff's televised address to the nation, when an undetermined number of people protested from the windows of their homes, banging pots and shouting.

The political implications of a large protest this coming Sunday may not be clear. The main opposition party, the Brazilian Social Democracy Party (PSDB), has sent mixed signals about the protests, none of which can be viewed as support for the Administration. A huge turnout, however, certainly does not mean that an impeachment process against Rousseff will follow, despite calls from many citizens. At this point in time, there is no legal justification to begin an impeachment process, which would hinge more on her relationship to the Petrobras scandal than deteriorating economic conditions. Another unpredictable aspect of Sunday's demonstrations is whether or not they turn violent. The June 2013 protests were peaceful in the early days, but then became violent with the actions of a small number of people. This development encouraged most Brazilians to abandon the demonstrations. The fear of violence could, in fact, restrain many from showing up on the streets this Sunday, but a large turnout is still the prediction.

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