Brazil-U.S. Business Council

PATRI Public Affairs

POLICY MONITOR

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The Week in Review

ON THE ECONOMIC FRONT

IOF: Rousseff has zeroed the Financial Operations Tax (IOF) tax, previously set at 6%. The measure is aimed at attracting more foreign investment, undervaluing the real (now above BRL$2.10 to the dollar) and reducing inflation.

Trade Balance: The Brazilian trade balance heaved a sigh of relief with a US$760 mi surplus in May. The balance still adds up to a US$5.4 bi deficit in the first five months of the year, mostly due to increases in oil imports. The industry's growing concern has led the Institute for Industrial Development (IEDI) to issue a letter pressuring the government to expand trade agreement negotiation worldwide. On this quest, São Paulo's Industry Federation (FIESP) will lead an effort to reform Mercosur.

Trade Balance (in US$ million)			
May/13	760	May/12	2.962
Jan - May/13	-5.392	Jan - May/12	6.261
June/12 - May/13	7.756	June/11 - May/12	277.530

Investment Grade: On Thursday, Standard & Poor's has changed the Brazilian macroeconomic scenario's classification from "stable" to "negative". This is the first step towards downgrading Brazil's credit ranking, which investment grade achieved in 2008.

Industrial Production: On a positive note, however, the Brazilian Statistics Agency (IBGE) reported that industry production grew by 1.8% index in April. This is the second month in a row of a negative growth in 2012 of -2.7%. So far, in 2013, industrial production rose by 1.6%.

Cement Industry: With upcoming major sporting events, Brazilian cement industry has doubled in size in the past 7 years. The country has gone from the 10th to 4th largest consumer of cement in the world, lagging behind China, India and the U.S. Meanwhile, cement giant, Votorantim Cimentos--currently holding 40% of the market share--plans on listing its shares publicly later this month.

Growth Projection: The Central Bank released its Focus Bulletin reducing growth expectations from 2.93% to 2.77% in 2013. This is the third drop in a row. Predictions for 2014 were also reduced from 3.5% to 3.4%.

ON THE POLITICAL FRONT

President's week: Rousseff flew to India on Thursday to participate in the 10th anniversary of the India, Brazil and South Africa (IBAS) Forum. On the same day, the Foreign Relations Minister Antônio Patriota headed to Guatemala to defend Paulo Vannuchi's bid to a vacancy at the Inter-American Human Rights Commission. Vannuchi led the Presidency's Human Rights Secretariat from 2005 through 2010 and was officially confirmed as a member late Thursday.

Ports MP: President Rousseff vetoed 13 points of the Provisional Measure (MP) 595/12 which establishes a new regulatory framework for ports. *See more below*

Chile in US Visa Waiver Program: Chile is the first Latin American country to be included in the U.S. Visa Waiver Program. The inclusion of Brazil in the U.S. Visa Waiver program is one of the top priorities of the BUSBC.

Argentine nationalization: Argentine President Cristina Kirchner decided to revoke 8.000 km of rail routes concessions operated by Brazilian company ALL. State-owned company Belgrano Cargas will take over those areas. ALL, part of Jorge Paulo Lemann's empire, stated that it will appeal the decision, but was previously trying to leave the country due to continuing struggles with the political and economic scenario. Argentina accounts for only 6% of ALL's revenues.

Ministry of Finance's changes: On Monday, the number two of the Finance Ministry, Nelson Barbosa, was officially discharged from his post. His deputy, Dyogo Oliveira, will temporarily assume his position. Barbosa is said to be leaving due to friction with the President and the Minister, Guido Mantega.

Google's email releases: The Supreme Court of Justice has mandated that Google Brazil comply with the order of breach of confidentiality of information stored abroad. The data demanded is on a case of corruption, bidding fraud and money laundering. Google has ten days to comply.

Government

Congress' News

As *Policy Monitor* reported last week, the President of the Senate, Renan Calheiros, is following through on his promise to not rush the vote of Provisional Measures. Consequently, on midnight of Monday, six MPs lost effect. One of the MPs made void is MP 605/12 which provides funds for the discounts given by the President in the energy tariffs reduction, announced last September. MP 601 which extends the REINTEGRA Program (exports incentives) was also among the MPs revoked.

The content of the two MPs will not be entirely lost. The government is maneuvering to include in other MPs or Decrees the same content that was made void when Congress did not approve both MPs.

Despite frictions with the congressional support base, President Rousseff will not stop announcing popular measures, most notably because the President will be seeking reelection next year. However, President Rousseff is likely to learn from recent mistakes and avoid making use of MPs. Decrees or bills are likely to be the norm from now to 2014.

Supreme Court

Rousseff's latest appointee to the Supreme Court, Luis Roberto Barroso, testified to the Senate's Committee on Constitution and Justice this Wednesday. In front of Senators, Barroso restated his position in favor of abortion of anencephalous newborns and the Court's right to determine same-sex marriages. The attorney also stated that he would like to participate in the final proceedings of the Mensalão trial. Later in the day, Barroso's nomination was approved by 56 votes in favor and 6 against.

Did you know?

Yearly Brazilians **evade**, on average, **BRL$415 billion** worth of taxes. That represents 10% of the GDP.

Data is from a study requested by the Union of the Finance Ministry's Attorneys (Sinprofaz).

Just this year, tax evasion reached **over BRL$170 bi** which, according to the study, could build 120.750 km of roads.

Tax & Investments

Financial Transaction Tax

President Rousseff published Decree 8.023/13 zeroing the Financial Transaction Tax (IOF) for foreign investments in domestic bonds. The previous rate, 6%, was set in October 2010 when the Brazilian real was BRL$1.70 to the dollar and the Selic interest rate at 10.75%. At that time, Finance Minister Guido Mantega wanted to protect the country from the "monetary tsunami" of foreign funds inflows. The dollar has risen from BRL$2.01 to BRL$2.14 in the past month.

Taxes on Invoices

Next Monday, Law 12.741/12, which requires establishments and service providers to print in their receipts and invoices the amount paid in taxes, comes into force. The law was sanctioned in December of 2012 and gave merchants six months to adapt. Six months later and days away from entering into force, the government and businesses still have no clue on how to implement the law. The administration, through the National Consumer Secretariat (SENACON) should publish a new norm regulating the Law, but it is yet to do so.

Harvest Plan

President Rousseff and the Minister of Agriculture, Antônio Andrade, announced on Tuesday the new Plan Harvest (Agricultural and Livestock) for 2013 and 2014. The program will provide BRL$136 billion, BRL$96 bi for defrayal and commercialization and BRL$38 bi for investment programs in the agricultural and livestock sectors.

An important measure is the approval for significant investments in the creation of new private warehouses, modernization and increase in the capacity of the National Supply Company (Conab). On Thursday, the President launched the Family Agriculture Plan to promote small land ownership.

Decrees regulating the two plans should be published soon.

Defense & Security

Naval Industry

The Studies and Projects Financer (FINEP) has started receiving proposals for cooperation between scientific research institutions and companies in the naval industry. The public call will provide BRL$ 41 million in funds for technology development projects. There are four major themes in the public call:

» Navigational, positioning, anchoring and mooring systems
» Energy generation, distribution and storage
» Automation, control and software
» Environment, security and salvage

FINEP will continue to receive proposals until June 26.

Trade

Import Tariffs Reduced

The Foreign Trade Council (CAMEX) published Resolution 39/13 and 40/13 reducing the import tax to 2% on a list of capital and telecommunications goods, respectively. The full list of goods is published here and here.

Detailed nomenclature of goods

On Monday, the Brazilian Foreign Trade Board (CAMEX) published the Resolution 36/13 which establishes the bylaws of the Technical Group working on the Brazilian detailed codes of nomenclature (DBN). It consists of 4 additional digits in the Common Nomenclature of Mercosur. Nonetheless, thus far, it will be for exclusive use inside the country.

The additional digits are necessary for statistics reasons, as well as administrative treatment of foreign trade. The Technical Group is responsible for managing the procedures to receive the private sector inputs which will be available soon. The Group is composed of representatives from CAMEX which heads the Group, the Ministry of Development, Industry and Foreign Trade (MDIC) and the Brazilian Federal Revenue Office (SRF).

Health

Public Consultation over the Permission for Company Operation

As published in last week's *Policy Monitor*, the Brazilian National Health Surveillance Agency (ANVISA) published on Thursday the Public Consultation 20/13 for a period of 60 days to review the rules related to the Authorization for Company Operation (AFE). The Authorization is required for the production of goods regulated by the Agency such as: cosmetics, medicines and sanitizing products.

Energy & Environment

The Environment Week

This week, Brazil celebrated the "Environment Week" with events nationwide. The Administration launched on Wednesday plans to mitigate and adapt to climate change directed to the sectors of industry, mining, transportation and health. These documents set out goals and actions to reduce emissions of greenhouse gases by 2020. The Administration will formally launch these plans soon.

The Pulse

New framework on ports: a move towards improving Brazil's competitiveness

After six months marked by heated debates in Congress among Members, businessmen and dock workers--who have made numerous strikes threats--President Rousseff sanctioned Law 12.815/13: the new regulatory framework for the functioning of private and public ports nationwide. The Bill that originated in the form of a Provisional Measure was significantly altered by Congress during debates. After threats of the government, the President sanctioned most of the bill but vetoed 13 portions added by Congress.

The Administration aims to reduce private concentration in this specific sector, to attract private investments, to reduce port fees, as well as decrease ships' waiting time. Most importantly, the framework's goal is to improve competiveness of Brazilian ports and decrease bottlenecks that existing ports face. The main controversial points vetoed by Rousseff were:

Industrial Terminals

President Rousseff **vetoed** the created of "industry terminals", claimed by companies such as Gerdau, VALE and Petrobras, which would have been terminals outside public ports that move individual loads only.

Automatic renewal of contracts

President Rousseff vetoed the automatic renewal of port contracts. Congress' version established that all contracts already signed had the right for automatic renewal.
The **presidential veto** prevents such practice.

Ship-owners participation in the bidding

The provision that ship-owners with higher than 5% participation in the port consortiums are forbidden from competing in the bidding of public ports leases, added by Congress, was also vetoed.

Port Security

In the text approved by the Congress, the surveillance and the security of the public ports are to be done exclusively by the Port Guard--a claim supported by the trade unions.
President Rousseff **vetoed** due to possible jurisdictional conflict with other public institutions, for instance, in cases of smuggling enforcement.

Registration of workers on ports

President Rousseff **vetoed** the provision that independent workers would have to be registered to perform their duties. The veto was due to a lack of clarity in the text.

Next steps

Two Decrees - The new Law will be regulated by two Decrees in the next 15 days, but expectations are that it will take longer. The first one will detail the selection process for the construction of new private ports and the other will regulate dock workers' peculiarities.

Regulation of the dock workers' rights - It will be done separately by a special committee composed of the Secretariat of Ports, the Ministry of Labor and Employment (MTE) and the Ministry of Social Security (MPS).

Additional regulations - Are also expected to be issued by the Secretariat of Ports and National Agency for Waterway Transportation (ANTAQ).

Bidding of ports - Divided into 4 blocks, the first round of leasing of 52 public terminals (in Ports of Santos and Pará) is expected for October 2013. Others bidding rounds are expected in January 2014. Priority will now be given to companies that can move more load with lower tariffs.

Investment Programs - BRL$ 54.6 billion of investments are expected in 161 public ports' terminals.

Congress' reaction

Congressmen reacted to the presidential vetoes assuring that they will override them. The Speaker of the House, Henrique Alves (PMDB), will hold a meeting next Tuesday with his counterpart from the Senate, Renan Calheiros (PMDB), to evaluate how to proceed on the appreciation of vetoes. Congressmen believe that the Administration did not follow through on its promise and vetoed several of the points previously agreed upon.
Vetoes must be appreciated by Congress to be overridden; however, there are over 3.000 vetoes on the waitlist that must be voted before. By agreement of the parties, this veto can be put in front of the list.

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