

The Week in Review

On the Economic Front

Petrobras to Sell Sub-Salt Blocks

According to *Valor Econômico*, the Petrobras divestment plan may include sale of some sub-salt oil fields that could raise up to US\$13.7 billion by 2016.

Petrobras had said previously that divestments in exploration and production could account for roughly 30% of the total value to be raised in the plan. The company decided to include high-quality blocks in the package to make it more attractive to investors, which could be purchased individually. The sales process is starting now, with the opening of information to interested investors, *Valor* added.

On the Political Front

Irregular Accounting

On Wednesday, the Ministers of the Federal Court of Accounts (*Tribunal de Contas da União* - TCU) approved a report which concluded that the Rousseff Administration had inappropriately postponed financial transfers routinely made from the National Treasury to the public banks (Banco do Brazil, Caixa Econômica, and BNDES) with the intent of showing artificially high public account balances. Delays in transfers occurred in social expenditure, labor, and social security accounts. The Executive Branch withheld the payments to banks to record reduced government spending so as to increase the public account balances and demonstrate an artificially improved chance of meeting the government's primary surplus target.

This operation was formally ruled "irregular" by the TCU because it compromises the government fiscal credibility. As the TCU only releases administrative reports, the general public prosecutor will be responsible for investigating and determining if these fiscal actions are criminal. If individuals are found guilty of an actual crime, they could be subject to dismissal and ineligibility for a public service job or running for an elected position for up to five years, prison, and/or a fine. In addition, officials who may have to answer for acts of misconduct could be subject to forced repayment of any illegally diverted funds.

The Court gave a 30-day deadline for many members of the government to provide clarification on the accusations, including:

- Guido Mantega, former finance minister;
- Arno Augustin, former National Treasury secretary;
- Alexander Tombini, Brazil's Central Bank president;
- Luciano Coutinho, BNDES president;
- Aldemir Bendine, former president of Banco do Brazil;
- Jorge Hereda, former president of Caixa Economica Federal;
- Manoel Dias, labor minister.



Rousseff Confirms a Working Visit to the United States

Last Saturday, during a Brazil-U.S. bilateral meeting at the Summit of the Americas in Panama, a working visit was confirmed for June 30 between President Rousseff and President Barack Obama. Among the priority issues to be discussed are commercial projects, energy, science and technology, as well as cooperation on defense and the environment.

New Brazilian Ambassador to the United States

On Wednesday, Luis Alberto Figueiredo Machado was confirmed as 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.

New Minister of Tourism

On Thursday, the former president of the House of Representatives, Henrique Eduardo Alves (PMDB-RN), was officially announced as the new Minister of Tourism. Alves' appointment had been considered for the position since the end of last year. His name was cleared after he was officially removed from the list of those being investigated in the Car Wash Operation, which includes 54 politicians allegedly involved in embezzlement and inflated contracts with Petrobras. However, his appointment displeased the president of the Senate, Renan Calheiros, who had supported the former Minister of Tourism, Vinicius Lages.

New Supreme Court Minister

On Tuesday, President Rousseff appointed Luiz Edson Fachin as the 11th minister of the Federal Supreme Court (*Supremo Tribunal Federal* – STF), who now must go through a confirmation hearing in the Senate. Fachin will fill Joaquim Barbosa's vacancy, who retired last July.

The Supreme Federal Court has eleven ministers, and Fachin is the fifth nominated by President Rousseff. Considering the three ministers who were appointed by former President Luiz Inacio Lula da Silva, by the end of 2018, a total of 10 ministers will have been appointed by presidents of the Workers' Party. Out of those who were named in previous administrations, only Gilmar Mendes, who was appointed by Fernando Henrique Cardoso (PSDB), will remain.

Task Forces

Healthcare

Genetic Patrimony: On Wednesday, the Senate approved the last points remaining on the Genetic Patrimony Bill (PLC - 2/15). The following amendments were approved:

- » Amendment 154, which states that all the elements contributing to the product's added value are subject to benefit sharing, and not just the main added value elements;
- » Amendment 163, which states that products are exempt from tax and benefit sharing for all genetic exploration performed before June 2000.

The bill now returns to the House of Representatives, which will have ten days to analyze it. Otherwise, votes on other bills in the House will be halted. **It is worth mentioning that the Executive Branch intends to approve the text without changes, and the House will likely not approve the changes.**

Defense and Security

U.S.-Brazil Defense Cooperation Agreement Sent to Brazilian Congress: On Wednesday, the Executive Office of the President sent the Brazil-U.S. Defense Cooperation Agreement, signed by both countries in April 2010, to the Brazilian Congress for approval. The agreement would strengthen the dialogue between the two



countries and open new prospects for cooperation in this field, on a balanced and mutually beneficial basis. The agreement aims to strengthen the institutional coverage for existing and future bilateral cooperation in areas such as: a) high-level delegation visits, b) contacts at a technical level, c) meetings between defense institutions, d) exchange students, instructors, and training personnel, e) training events and improvements, f) visits of vessels, g) sporting and cultural events, h) commercial initiatives related to defense, i) defense programs and technology projects.

Tax and Investment

PEC do Comércio Eletrônico: On Wednesday, the Senate approved a proposed amendment to the constitution (*Proposta de Emenda à Constituição - PEC*) 87/15. Under Brazilian law, because the proposed constitutional amendment originated with the president and was passed by the House and the Senate without change, it was able to be officially promulgated by Congress on Thursday, April 16th and will take effect when published in the Official Gazette. The amendment will alter the ICMS tax collection for interstate e-commerce transactions. The ICMS is the major source of revenue for states. Currently, the ICMS for e-commerce transactions is collected 100% by the state of origin. From 2016-2020, under the constitutional amendment, the collection of the ICMS tax will be transferred incrementally to the state of destination (see schedule below.)

	2016	2017	2018	2019	2020
Origin State	80%	60%	40%	20%	0
Destiny State	20%	40%	60%	80%	100%

The Pulse

Politics and Economy Offer Dilma a Moment of Stability

Despite some new challenges, President Dilma Rousseff actually had a relatively good week. The biggest setback was the arrest of João Vaccari, the Workers' Party (PT) Treasurer, on charges of corruption related to the Petrobras scandal. So far, however, it has reflected more on the party than President Rousseff. The economic news, in fact, has actually improved. After 14 consecutive weeks of higher inflation reports, market expectations finally showed a downward trend, falling on Monday to 8.13% from 8.20% a week earlier. Although the Ibovespa stock index registered a decline mid-week, it is still significantly higher than the 46,000-point floor seen earlier this year. The U.S. dollar exchange rate also seems to have stabilized at R\$3.00 after sliding to more than R\$3.30 recently.

By these indicators, the economy appears to have hit bottom and there is a cautious confidence emerging over the fiscal adjustment. President Rousseff has indicated a more engaged presence in the new macroeconomic policies, and they should lead to achieving her goal of a 2.0% primary surplus for 2016 through 2018.

There are also increasing indications from government officials that regulatory standards could be relaxed to accommodate increased foreign investment, given that both the government and domestic firms are fiscally constrained from committing funds to this area. To attract foreign investors, national and state interventionism will have to change, as officials such as Energy Minister Eduardo Braga have already admitted publicly. The need for foreign investment will also be essential to address growing unemployment, which is forecast to reach 10% by the end of the year.

The political fallout may also be stabilizing. The demonstrations against the government last Sunday lost strength and clearly revealed that the lower and emerging middle classes so far have not been convinced to join in. The possibility of impeachment has been revived with the PT treasurer's arrest, but Vice President Temer's actions as the new coordinator of Executive branch relations with Congress have diminished the tempestuous environment that prevailed in the first 100 days of the government. This may bode well for more cooperation in resolving Brazil's immediate problems.

