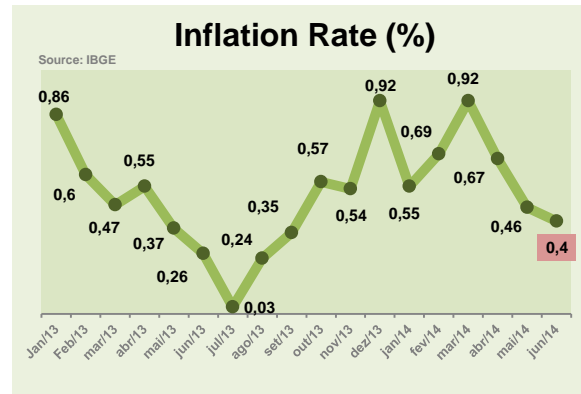


# The Week in Review

## On The Economic Front

### Inflation

On Tuesday, the national statistics agency (IBGE) released June's Consumer Prices measured by the benchmark IPCA index, which declined 0.4%, pushing annual inflation to 6.52%, a little higher than the target rate of 6.5%. According to *Valor Economico*, the World Cup soccer tournament currently being held in Brazil likely accounted for half - or 0.20 percentage points – of the result. Among the reasons are hotel rates that rose 25%, and airfare which showed a 21% increase. The exchange rate, if maintained at BRL\$ 2,20, has been viewed as the only vector with sufficient strength to prevent the year ending with inflation higher than the target for 2014.



### Brazil's Trade Balance

According to information released on July 1<sup>st</sup> by the Ministry of Development, Industry, and Foreign Trade (MDIC), Brazilian export revenues exceeded imports by US\$ 2.365 billion in June, 2.5% higher than the same period last year. Year-to-date, however, the trade balance still shows a US\$ 2.4 billion deficit. The trade balance for June strengthens the perception of a slower pace for domestic activity for imports but mainly reinforces the signs of a drop in domestic investment. Also, despite the Administration's announcement of a BRL\$ 10.5 billion (US\$ 4.8 billion) budget deficit in May, the Central Bank and the National Treasury have stated that the weak fiscal result will not interfere with the Administration's primary surplus target.

### Industry Output

Amid deteriorating expectations for the national economy and softening domestic demand, Brazil's industrial production fell 0.6 percent in May from April, according to the Brazilian Institute of Geography and Statistics (IBGE). May's industrial production is down 3.2% from a year earlier.

### Automobile Production

According to figures released on Monday by Anfavea, the auto industry's trade group, the first semester of 2014 had the smallest car production volume in the last 29 months, with a 17% drop. The industry who had predicted an increase of 1%, now expects sales to fall 5.4% and production to decline 10% in 2014.

### Drought in São Paulo

With the increasingly critical drought in the metropolitan area of São Paulo, Cantareira water management system water levels have dropped significantly in recent days. Since March, the state's water utility company Sabesp has performed emergency work to drain water below the reservoirs' gate levels. However, despite the use of the "dead volume" in the Cantareira system, it is operating with a capacity below 20%. Experts estimate that the reserve may only last another 100 days.



# On The Political Front

## Datafolha Presidential Poll

One hundred days before the Brazilian national elections, President Dilma Rousseff still appears to be the clear frontrunner, according to the most recent public opinion polls. None of the main opposition candidates have captured the preferences of voters, despite the growing dissatisfaction with the Rousseff administration. However, the polls also indicate a larger chance of a runoff between the two candidates receiving the highest number of votes, which is required if no candidate receives more than 50% of the valid votes in the first round, to be held on October 5<sup>th</sup>. The increased expectation of a second round is due to the decrease in the number of those who say they will nullify their vote. The most probable reason for this decrease, as reported in the press, is the good mood brought to the country by the soccer World Cup being hosted by Brazil this month.

## President Rousseff's Reelection Campaign

President Dilma Rousseff's campaign coordination management excluded from her reelection program some traditional Worker's Party issues because they were considered too radical, such as public control of the media and adoption of public financing for political campaigns. Following a meeting held last week, the PT decided not to incorporate some issues from the party's pre-approved program that do not have a general consensus among other parties in President Rousseff's coalition.

# Task Forces

## Innovation

**Internet Framework Bill:** On June 23<sup>rd</sup>, Brazil's landmark legislation, Marco Civil da Internet (Internet Framework bill), took effect. The bill was approved by the Senate on April 22<sup>nd</sup> after years of debate and was signed into law by President Rousseff the following day during the global Internet governance forum NETmundial, which Brazil hosted in São Paulo. Upon its publication in the federal gazette on April 24<sup>th</sup>, the bill was subject to a 60-day waiting period before taking effect. One of the core items still requiring clarification is net neutrality and the possible exceptions to it, as well as the terms and time periods for service providers' storage of user data. The federal government is yet to convene telecom authorities, including regulator Anatel, communications ministry (Minicom), and the country's Internet steering committee CGI.br to discuss the law's pending regulations. A broad public consultation process to discuss all these subjects is scheduled for the coming months, and public hearings are also expected to be held.

**Scientific Mobility Program:** President Rousseff announced a major extension of Brazil's Scientific Mobility Program (Ciência sem Fronteiras), a large-scale scholarship program, supported mostly by public funds, with the goal of promoting the consolidation and expansion of science, technology, and innovation in Brazil by means of international exchange. The program is a joint effort of the Ministry of Education (ME) and the Ministry of Science and Technology (MCTI). The new phase will begin in 2015, with the goal of supporting a further 100,000 scholarships for study abroad for Brazilian university students over the course of three years.

**Access to Genetic Patrimony:** The House floor approved a request to install a select committee that will analyze and vote on bill (PL) 7735/14, which would establish a new framework to clarify regulatory control over access to "genetic patrimony," in which Brazil exercises its sovereign ownership of its rich biodiversity through access and shared use of its genetic resources. In total, the committee will have 23 members and an equal number of alternates. After the members are announced, a meeting will be scheduled to elect a president and appoint a rapporteur for the bill. Representative Luciana Santos (PCdoB/PE) was nominated by the PT party's vice-leader, Sibá Machado (PT/AC), to become rapporteur of the bill. According to Luciana Santos, Henrique Eduardo Alves (PMDB/RN) has already accepted her nomination. This decision may have been a strategic agreement made with the Ministry of the Environment so that few changes are made to the Administration's bill.

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## Trade and Regulation

**Stimulus package:** On Thursday, the Administration published Provisional Measure [\(MP\) 651/14](#) with the industrial policy measures announced on June 18<sup>th</sup> by the Minister of Finance, Guido Mantega, after a meeting held with President Dilma Rousseff and the industry sector. Among the measures announced, the MP, which includes tax cuts on foreign sales and subsidized credit lines, will permanently extend the payroll tax exemption policy for companies that are already receiving the benefit. The MP also remodels the tax installment plan (Refis) and restores the Special Regime of Tax Incentives (Reintegra) to exporting companies. The Reintegra, which prevailed in the years 2012 and 2013 will now be permanent. The exporter will be entitled to a credit that will range from 0.1% to 3% of sales, depending on the goods.

**Brazil Export:** On July 2<sup>nd</sup>, Apex-Brazil (Brazilian Agency for the Promotion of Exports and Investments), in partnership with the Ministries of Development, Industry, and Foreign Trade (MDIC), Agriculture (MAPA) and Foreign Affairs (MRE) launched the site "Brasil Export, a Guide to Foreign Trade and Investment in Brazil. The site consolidates all programs and activities already undertaken by the federal government, focusing on meeting corporate sector demand on trade promotion and on opening new market and investment opportunities. The site holds information on exports, imports, and investments, such as:

- ✓ Consultation on tax rules;
- ✓ Legislation;
- ✓ Access to foreign trade systems;
- ✓ Replacement Program for Competitive Export Import (PSCI);
- ✓ Knowledge of the market;
- ✓ Search buyers;
- ✓ Product Disclosure, and
- ✓ National and International Fairs

**Animal Testing:** The National Council for Control of Animal Testing (CONCEA) published resolution [17/14](#), which provides rules for validating alternative methods applied in research to reduce and eventually completely replace the use of animal testing. It also allows CONCEA to evaluate certificates that have been issued by validation centers as well as international studies that have been published. The policy applies only to research initiatives and studies made in Brazil since no mention of these rules being applied to imported products in the country were made. Institutions interested in validating alternative methods to animal use in research should be associated with the National Network of Alternative Methods (RENAMA). After the alternative method is approved and recognized by CONCEA, the company will have 5 years to replace the original method by the alternative method. For the purposes of this resolution, the following apply:

- ✓ Alternative Method: any method that can be used to replace, reduce, and refine the use of animals in research activities;
- ✓ Alternative validated method: a method by which the reliability and relevance are pre-validated, validated, and reviewed by specialists from the validation centers for alternative methods, or by international collaborative studies;
- ✓ Recognized Alternative method: an alternative method validated by CONCEA.

## The Pulse

The World Cup is sadly over for Brazil, the presidential electoral campaign begins, and one will probably not affect the other very much—at least this is what history has been showing and what good sense allows to predict

The World Cup is sadly over for the Brazilian team and the country now turns its attention to the national elections, the outcome of which is more likely to be determined by the candidates' campaign performances and Brazil's economic prospects than its recent soccer performance.

Nate Silver, the statistician made famous for predicting election results for *The New York Times*, pronounced Brazil's 7-to-1 defeat to Germany as the most unexpected score in World Cup history. Even

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more difficult now is to anticipate whether this lopsided loss could affect the October Brazilian national elections.

Historically, the performance of Brazil's World Cup team has not significantly influenced presidential races. In the final 1998 match, Brazil lost to France 3 to 0, the worst defeat in history until that time, and yet President Cardoso was reelected. In 2002, Brazil won the title, defeating Germany, and Cardoso's candidate lost the election. In 2006, Brazil finished fifth in the World Cup, and President Lula was reelected. Brazil finished fifth again in 2010, and President Lula's candidate was elected. It remains to be seen if Brazil's defeat presents a possible exception to the rule.

This World Cup, however, is far more controversial, not only for the historic loss, but because it is being hosted in Brazil, at great cost, and so its perceived success or failure reflects on Brazil as a whole and affects the national mood. There have also been organizing setbacks, protests, and infrastructure problems, some even tragic (such as the collapse of a bridge in Belo Horizonte), but most have been relatively minor and largely overshadowed in the press by the hospitality and warmth that Brazilians have displayed towards hundreds of thousands of foreign visitors. Until Brazil's defeat, the national mood had turned broadly supportive, if not ecstatic, especially towards the games but also the Cup itself.

President Rousseff has even agreed to appear at the final match this Sunday, despite the jeers she endured in the inaugural game. She has been confident enough to link the World Cup to domestic politics, stating that those who said the tournament would be a failure have been proven wrong, as will those who argue that the Brazilian economy is in serious trouble. Indeed, the Brazilian people had seemed immune to the recurring bad economic news, distracted by Brazil's success at the World Cup. News reports have overwhelmingly focused on the World Cup to the detriment of other stories throughout the tournament.

The economic forecasts are serious. Annual GDP growth for 2014 is not expected to be much higher than 1%; inflation has passed the ceiling of the Administration's target range and although it will not likely rise much from now on, it will probably not come down dramatically either, and employment data released in June suggests a softening in the labor market. Another serious problem is the shortage of water, especially in the southeastern region, due to one of the worst droughts on record. This may affect the energy supply in the area, where most Brazilian industry operates, and also impact residential energy and water service.

Although Brazil is taking the defeat to Germany in stride, it now faces more serious issues central to the presidential campaign. As the formal campaign advertising period begins, Brazilians will be reminded of the high costs of the World Cup in the new light of Brazil's loss, and opposition candidates will point to the reality of Brazil's increasingly negative economic outlook under the Rousseff administration. Despite the latest polls still showing President Rousseff as the clear frontrunner, there is still a strong likelihood that the election will go to a second round, depending on how the economy performs and how the candidates make their case to the voters.

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