

# The Week in Review

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## On the Economic Front

### New Funds in Support of Tax Reform

On June 14th, the executive branch introduced Provisional Measure 683 (*Medida Provisória – MP*), which creates two funds in support of a broader reform of the ICMS, the state tax on goods and services:

- » The Regional Infrastructure and Development Fund (FDRI), including the Steering Committee
- » The Financial Assistance fund to assist those states that would be fiscally disadvantaged under the proposed change in ICMS tax rates (FAC-ICMS)

Brazil is contemplating a major reform in the ICMS tax structure, which would converge and unify the various state tax rates at 4%, in an attempt to eliminate the so-called "tax war" among the states. As part of an effort to encourage regional development and facilitate this important, but politically difficult, tax reform, the two funds would provide resources, including investment and finances, respectively, to compensate states that would lose under a new unified ICMS tax rate. In a bill under consideration in the Senate, the two new funds would be financed by a fine or assessment on repatriated money sent abroad irregularly that had not been subject to tax by the Brazilian IRS. The bill would include incentives to repatriate this money.

## On the Political Front

### Petrobras

Brazil's Federal Police carried out more than 50 search and seizure operations against persons suspected of involvement in the Petrobras kickback scandal. The operations took place at residences, offices, company headquarters, law firms, and public institutions. Among the people involved were former president and current Senator Fernando Collor and Senators Ciro Nogueira and Fernando Bezerra Coelho, both from minority ruling coalition parties. This is the first time police have raided the properties of senior sitting congress members as part of the Petrobras investigation.

### CBF Parliamentary Investigation Commission

On Wednesday, the Senate opened a Parliamentary Investigation Commission (CPI) on the National Football Confederation (CBF). Former soccer player, now-senator Romário, who had requested the investigation after the FIFA corruption scandal back in May, was elected president and Senator Romero Jucá (PMDB/RR) was elected rapporteur of the probe. Among other things, the CPI will investigate crimes that involve money laundering, unjust enrichment, corruption, extortion, and financial fraud. The CPI will schedule meetings with public prosecutors, the Federal Police and the Ministry of Justice, among others. Senator Romário said the committee will also ask U.S. authorities working on the FIFA probe to also contribute.

The CPI has 180 days to follow through with its work agenda, meaning that it will most likely end by February 2016 (not counting the January parliamentary recess). This timeframe may be extended at the request of CPI members.



## Mercosur

On July 17, Brasilia will hold the 48th edition of the MERCOSUR Summit of Heads of State and Associated States. The Summit is part of the list of activities provided by the Pro Tempore Presidency of Brazil (PPTB) in MERCOSUR, exercised during the first half of 2015. At the end of the Summit, the Pro Tempore Presidency of the block will be transferred to Paraguay. According to Itamaraty, during the PPTB, about 300 decision-making meetings were held with specialized MERCOSUR bodies on issues such as trade, industrial integration, citizenship, social development, environment, justice, culture, education, human rights, health, and academic mobility.

The meeting is preceded by the meeting of the Common Market Council (CMC), which brings together foreign ministers, finance ministers, and industry leaders of the member states. Mercosur nations are expected to approve in the next few days a new extension of the list of exceptions to the common external tariff (CET – TEC). The exceptions, which showcase the trade bloc's limitations after 24 years of existence, were set to end on December 31.

In parallel to the Summit and its preparatory meetings, a Social Summit was held in Brasilia and the V MERCOSUR Business Forum was held in Belo Horizonte. The Social Summit served as a debate platform on social and civic dimensions of regional integration, and the Business Forum discussed issues such as productive integration, trade promotion, investment attraction and micro and small businesses.

## Political Reform

On Wednesday, the full Senate began voting on the first group of proposals for the political reform made by the special committee that dealt with the issue chaired by Senator Jorge Viana (PT-AC). In total, five bills were approved and will now follow to the House of Representatives. There are still more bills on political reform that will only be voted on by the Senate after the Parliamentary Recess in August. **Bills approved:**

- » [PLS 473/15](#), prohibits media firms from hiring election pollsters or candidates that in the 12 months prior to the election have provided services to political parties, candidates and the organs and entities of the direct and indirect public administration of all levels of the Executive and Legislative branches;
- » [PLS 430/15](#), regulates the distribution of seats among the political parties on proportional representation;
- » [PLS 441/15](#), limits the distribution of resources from the political party fund and the time allocated to parties in radio and TV programs to associations that have permanent directories in 10% of municipalities, distributed in at least 14 states.
- » [PLS 477/15](#), changes the electoral legislation to allow party federations. The TV time would be distributed to the college as a whole.
- » [PLS 483/15](#), establishes that the following actions will not be considered early advertising and may have coverage by the media, including via the Internet:
  - Conducting party primaries, and announcing names of members who will run for a public office, except for media professionals;
  - Public announcements of personal positioning on political issues, including on social networks;
  - Performing, at the expense of a political party, civil society initiatives, meetings, in any location, to disseminate the ideas, objectives and partisan proposals.

## Congress

Political party leaders have suspended deliberative sessions for the next two weeks. The Constitution requires that an official parliamentary recess must take place between July 18th and July 31st but conditions the recess on the approval of the budgetary guidelines law. As Congress did not approve such law in time, members of Congress will have an informal recess instead, as has been done in the past. Congress will return on August 8th.



# Task Forces

## Innovation

**Digital Governance Strategy:** The Public Comment Period for Brazil's first Digital Governance Strategy (EGD) ends on Friday, July 17th. The purpose of the document is to establish guidelines for improving access to information, improve the delivery of electronic services, and promote social participation. The Ministry of Planning, Budget, and Management (MPOG) released the EGD for public consultation on the Participa.Br portal. So far, the document has received 275 contributions. EGD aims to establish principles and guidelines for the preparation of digital government policies based on the pillars of information, including participation and services, and focusing mainly on personal data, cyber security, and public procurement of goods and information technology and communications services (TIC). After the deadline for contributions and formatting of the text, the strategy will be published as a decree in the Official Gazette.

**Personal Data Protection:** From January 28 to July 5, the Ministry of Justice (MJ) received contributions to help write the text of the Draft Law (APL) on personal data protection. The APL received approximately 1.4 thousand contributions. MJ, through the National Consumer Bureau (Senacon) headed the public consultation process and now works in the consolidation of the final text.

# The Pulse

## Congressional Break No Respite for President Rousseff

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The Rousseff administration was hoping that the expected congressional adjournment this Friday for its winter recess would bring a two week respite from unrelenting political pressures it has endured since January. However, because Congress has yet to vote on the Budget Guideline Law, under the Constitution, it may not formally recess. Therefore, Congress has decided to break informally through the end of July in what is known as a "white recess," meaning that there will be no floor sessions or permanent committee meetings, but the parliamentary investigative committees (CPIs), including the one on the Petrobras scandal, may continue.

Also, the work of the Federal Police and Public Ministry in the *Lava Jato* operation are likely to continue and create problems for the government. This week, three senators who support Rousseff had their homes raided by police. This is one of numerous important issues that have increased speculation about President Rousseff's possible impeachment. However, the raids do not mean that the process is more likely because there is no consensus even among the opposition parties that such a path is currently viable.

So far, no real evidence of illegalities by the president herself have emerged, and it is not clear which political forces would profit from her impeachment. Moreover, the Brazilian crisis is more economic than political, and impeachment would not help solve the economic problems faced by the country. To the contrary, it would probably exacerbate them.

When Congress fully convenes again on August 3rd, members will return from their home states with a much clearer idea of the people's mood, which may be expected to deteriorate considerably given the deepening recession and rising unemployment. Several social movements have scheduled mass demonstrations scheduled for August 16 against the government, and their success will shape the political environment ahead, at which point the chances of impeachment may be more adequately assessed.

