

# The Week in Review

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## On the Political Front

### Congress

This week, Congress reconvened after a two-week long recess. The expectation is that the strain between the legislative and the executive branches will continue. Special tension is likely to arise in the House of Representatives, where Speaker of the House Eduardo Cunha announced he was joining the opposition to President Rousseff's administration. The break happened after he was said to be involved in the alleged kickback scheme in connection with a Petrobras contract. The voting agenda for the first week already included critical propositions for the government, such as financial accountability during previous administrations, including President Collor's (1992), Cardoso's (2002), and Lula's (2006 and 2008) terms in office. Cunha reiterated that the House must bring to the forefront the tax pedaling case that allegedly happened during President Rousseff's first administration currently being investigated by the Court of Audits (TCU).

### Dialoga Brasil

An Internet portal called *Dialoga Brasil* (Interact Brazil) was created and launched by the Rousseff Administration this week. The goal is to increase society's participation in the development of government programs by encouraging taxpayers "to propose improvements in public policy and in the lives of Brazilians," focusing on 14 themes and 80 priority programs available in the Internet portal according to the initiative's Facebook page. Also according to the government's provided description, "In November 2015, the federal government will begin to answer the three most endorsed proposals for each program."

## Task Forces

### Defense & Security

**Terrorist Organizations:** On Wednesday, three House standing committees introduced their report for the approval of the executive branch's bill (PL) 2016/15, which would alter the Law of Criminal Organizations (Law 12,850/13) to define terrorist organizations and increase the penalties that violators are subject to. This bill is important to Brazil's adherence to the Global Entry/Visa Waver program. The report defines terrorism as the acts committed in order to intimidate state, international companies (foreign or domestic), or international organizations, to coerce the act or omission in addition to causing terror, exposing people to danger, or threatening equity, public peace, or public safety. Also, the new text determines penalty of imprisonment from 20 to 30 years, in addition to sanctions for threat or violence. The list of what is considered to be a terrorist act includes:

- » Use or threaten to use any means of promoting mass destruction;
- » Interfere, sabotage, or damage computer systems or databases;
- » Sabotage operation or seize, with violence, serious threat to person or use of cyber mechanisms, any means of communication or transportation (ports, airports, railway, or bus stations, hospitals, schools, stadiums, public



facilities or essential public services sites, power plants, military, exploration, refining and processing of oil and gas).

The Bill was introduced on June 18th, and is under constitutional urgency on the House floor. This means the House of Representatives has 45 days to approve it. If it is not voted on by August 16, the bill will halt the voting agenda. The bill is being analyzed at the same time by the House committees on Foreign Relations and National Defense (CREDN), Public Security and Fighting Organized Crime (CSPCCO), and Constitution and Justice and Citizenship (CCJC). It is expected to be on next week's voting agenda set for Tuesday, August 11th.

## Energy

**Oil Auction - 13th Bidding Round:** The National Petroleum, Natural Gas, and Biofuel Agency (ANP) published the final version of the 13th bidding round's final notice and contract. The main new features are:

- » **Warranty:** Average reduction of 72% of the value of the offer of guarantees provided in the notice;
- » **Minimum Exploration Program (PEM):** Average reduction of 40% of PEM for all 266 blocks;
- » **Local Content - Price Range:** As requested by the Ministry of Mines and Energy, devices to counteract the weight of investments between the time of the auction and the effective enforcement of the local content rules were included in order to reduce possible distortions caused by the variation in oil prices;
- » **Local content - Waiver:** The dealer must prove in the local content exemption request that s/he ensures equitable conditions of competition between Brazilians and foreigners and that the criterion of local content was adopted in supplier selection;
- » **Investments in R&D:** Fine exclusion of 20% in investment obligations in the following year, if the dealer does not fully allocate the R&D resources in a given year.

To date, there are 26 companies registered to participate in the 13th bidding round, and according to the Director-General, Magda Chambriard, interest from companies is as expected. However, this is not what induced the changes in the bidding notice. Some of the changes, such as reducing the guarantees and minimum exploratory program, seek to reduce the cost of oil. Still, the rules laid down in the tender and contract remain unattractive.

**Single Operator Bill:** This week, the Senate installed the Special Committee (CESP) on the Single Operator bill (PLS 131/15). The President of the CESP is Senator Otto Alencar (PSD / BA), who was nominated for this position by President of the Senate Renan Calheiros (PMDB / AL). Otto is in favor of maintaining Senator Ricardo Ferraço (PMDB / ES) as rapporteur on the matter. But among the 11 senators present, only three were in favor of maintaining Ferraço as Rapporteur—Otto, Ferraço himself, and Senator Flexa Ribeiro (PSDB / PA). The meeting ended without a definition of the rapporteur. For Ferraço to continue as rapporteur of the bill, it will depend on the ability of party leaders to mobilize parliamentarians, particularly the PMDB. The committee has 45 days to conclude a report, starting from the first week of August. Bill 131/15, authored by Senator José Serra, would create alternatives to the Single Operator System that requires state-run oil firm Petrobras to take a minimum 30% stake in new development contracts and function as operator in Brazil's subsalt oil areas.

## Innovation

**Creative Digital Content:** On Tuesday, the Ministry of Communications launched the *Usinas Digitais* program (Digital Workshops), which aims to give technical conditions for the existence of startups, along the lines used for large companies. The program will select two projects in 2015, each with transfer of up to BRL\$ 4 million, in order to promote creative digital content production, and stimulate regional economies through the creation of technology hubs and Local Productive Arrangements (APLs). The Ministry will establish partnerships with local governments, civil society organizations, and research institutions to create technology hubs with the intention of encouraging innovation projects and technological development in the sectors of audiovisual, visualization, music and sound, applications, and electronic gaming. The centers will be built with the use of compounds infrastructure, such as centers of production and post-production and research facilities and software development. The notice will be published by the Ministry of Communications. Proposals may be submitted until September 4th, and should be submitted online through the Management System and Transfer Agreements' (Siconv) website.



**International Information Technology Treaty (ITA):** Brazil sat out of the most important multilateral trade agreement in the last 18 years, which would reduce rates for a long list of computer components. Announced by the World Trade Organization (WTO) after an understanding between the United States and China, the agreement on information technology covers greater volume than the automotive industry. The agreement came after almost 20 years of negotiations in the WTO. In total, 201 products and electronic components, such as GPS and touch screen, will be free of import tariffs. Of the 161 countries that are part of the WTO, 54 have signed the agreement. This means that only these countries agreed to import foreign products without charging tariffs. In their stores, domestic and imported products will compete on equal terms. The other group of countries, which includes Brazil, will continue taxing these imported products.

## Health

**ANVISA:** The National Health Surveillance Agency (Anvisa) announced which directors will be responsible for the agency's following departments:

- » Institutional Management Department (*Diretoria de Gestão Institucional - Diges*):  
**Jarbas Barbosa da Silva Júnior;**
- » Coordination and Articulation of the National Sanitary Surveillance System (*Diretoria de Coordenação e Articulação do Sistema Nacional de Vigilância Sanitária - DSNVS*):  
**Ivo Bucaresky;**
- » Authorization of Sanitary Registries Regulation (*Diretoria de Autorização e Registro Sanitários - Diare*):  
**Renato Alencar Porto;** and
- » Sanitary Control and Monitoring (*Controle e Monitoramento Sanitários - Dimon*):  
**José Carlos Magalhães Moutinho.**

## Tax & Investment

**Infrastructure Liquidity Support Line:** The National Bank for Economic and Social Development (BNDES) announced the launch of the Liquidity Support Line (LSL) to debenture interest rate. This line is part of the infrastructure concessions package financing alternatives (Logistics Investment Program - PIL), and will have an allocation of BRL\$ 1 billion. The credit line will allow the issuing of infrastructure bonds to finance exclusively the interest payable to investors in securities issued in public procurements. The financing conditions are: 1) this credit line will be used in the issuance of project bonds already supported by BNDES and are linked to special purpose entities (SPEs) infrastructure, where participation of entrepreneurs via equity in project funding sources is at least 20%; 2) to qualify, the company must operate in any of the following sectors: logistics and transportation; urban mobility; energy; or sanitation; 3) the credit line can be accessed more than once until the contracted limit and for the duration of the LSL. The full text of the BNDES note on the new line is available [HERE](#).

# The Pulse

## President Dilma Rousseff and the PT Face Increasing Opposition

The political and economic situation of President Dima Rousseff's government and her Worker's Party (PT) has deteriorated even further over the last couple of days, making her Administration's future even more uncertain. According to the most recent Datafolha poll, 71% of all Brazilians now reject President Rousseff, and only 8% approve of her job performance. These are the worst presidential approval ratings tallied since the end of the military regime in 1985. A number of factors have played a role in the continuing fall of President Rousseff and the PT:

- » Finance Minister Joaquim Levy, seen as her only hope to orchestrate an economic recovery by 2016, lost some political clout since having to concede that Brazil will miss its original 2015 primary surplus target;



- » José Dirceu, the Chief of Staff and second most powerful person in President Lula's first administration, as well as a major PT leader, was arrested on charges of being a mastermind of the Petrobras corruption scandal. He was already under house arrest for conviction under the Mensalão bribery scandal that unfolded during President Lula's second term in office;
- » President Rousseff and the PT have been unable to move ahead with Congress on key votes, including those that would reduce public spending as part of the fiscal adjustment;
- » Eduardo Cunha, president of the House and an avowed nemesis of President Rousseff, formally placed himself in the opposition two weeks ago and has since excluded the PT from key positions in all investigatory committees, which could politically weaken the Rousseff Administration and the PT;
- » The National Association of Prosecutors on Wednesday gave overwhelming support (81%) for current Attorney General Rodrigo Janot to continue his work, thwarting any hope President Rousseff might have had of appointing another person to lead the investigations into government corruption.

Bad news abounds for the president, and there is no sign of this trend turning around in the near future. Despite rumors of her impeachment, it still remains an unlikely event given the lack of political consensus to move ahead, even among opposition leaders. The next important indicator for President Rousseff's political status could be the strength of the turnout for nationwide public demonstrations scheduled for August 16th. In fact, they may be a decisive indicator as to whether the Rousseff' Administration will survive the worst crisis Brazil has seen in the least 60 years.

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