

The Week in Review

ON THE ECONOMIC FRONT

Dollar: The Central Bank continues to intervene unsuccessfully to sustain the real exchange rate—the rate reached BRL\$2.258 to the dollar on Thursday.

Embraer: Brazilian aircraft manufacturer Embraer launched on Monday its' second-generation of E-jet planes. The biggest aircraft (E193-E2) can accommodate up to 144 seats. After the announcement, the company gathered over 365 potential orders which could total US\$19.2 billion.

Defense industry: Imports of U.S. defense products and services in Brazil increased by 37% in 2012, totalizing US\$ 633 million in part due to security demands for the upcoming sporting events, the World Cup and Olympics..

Selic rate: The 0.5% increase in the Selic interest rate to 8% last week was well-accepted by the market, but economists are skeptical due to the continuation of the expansionist fiscal policy which the potential to cancel out the effects of a higher interest rate.

INOVA AGRO: The Central Bank published [Resolution 4.227/13](#) creating the incentives program to innovation in the production of agriculture and livestock (Inova Agro Program). Launched last May, the program will provide support to Brazilian companies in the supply chain development, genetic improvement and product development of the food industry, among others. The total budget for the program is of BRL\$3 billion.

ON THE POLITICAL FRONT

Protests: Over 1 million people have taken the streets of 25 capitals in Brazil protesting hikes in public transportation fares, growing inflation, and public expenditures in the construction of World Cup Stadiums. Some manifestations turned violent, such as in Rio de Janeiro, with confrontation between protesters and the police. On Monday, São Paulo gathered over 65.000 people—more than the protest to impeach former President Fernando Collor in 1992. President Rousseff has stated that “peaceful protests are legitimate”. Various mayors and governors revoked the fare hikes throughout the week, including in São Paulo and Rio de Janeiro. *See more below*

President's week: Rousseff had one of the toughest weeks of her Administration highlighted wide-spread protests and hiking of inflation. Nonetheless, the President sent to Congress a Bill on the new framework on mining. On Wednesday, Rousseff held a meeting with Robson Andrade, President of the National Confederation of Industry (CNI), one of the rumored topics in the agenda was the tax exemption on technical services imports for machineries and equipments. Because of the intense social movements, the President cancelled a trip to Japan and the Worker's Party also cancelled a seminar to celebrate 10 years in the Administration.

Campaign Financing: The Supreme Court held the first part of the public hearing to debate campaign financing for the 2014 elections. Among issues discussed were: public financing of campaign, limitation to parties' expenditures in campaigns and the imbalance between private companies' donations.

Elections 2014: On Thursday, the Supreme Court revoked the preliminary order of Minister Gilmar Mendes suspending the legislative process of [Bill 4470/2012](#) which restricts the creation of new parties, impacting Marina Silva's initiative to create the Sustainability Network. If approved in the Congress, new parties will not have TV time for campaigning or receive funds from the Federal Party Fund.

Transportation Tax Exemption: The Provisional Measure (MP) 617/13 that zeros the PIS/PASEP and COFINS taxes on revenue accrued from public transportation services has received over 104 amendments in Congress. The measure must still be analyzed by both chambers, but is proven timely due to public manifestations regarding the price of transportation fares.

Patriota's hearing: On Thursday, Antonio Patriota, Minister of Foreign Relations, attended a public hearing at the Senate's Foreign Relations Committee to discuss Mercosur and the impacts of the new trade bloc “Pacific Alliance” - composed by Chile, Colombia, Mexico and Peru. In Patriota's view the new bloc does not represent a threat to Mercosur. There was no discussion related to Brazil-U.S. relations.



Quotes of the Week

“There are no limits to hikes in the interest rate” - Alexandre Tombini, President of the Central Bank.

“Let me tell you, there is this possibility (of being blackmailed by congressmen) and it does happen sometimes” - Ideli Salvatti, Minister of Institutional Relations.

“Those voices from the streets must be listened. They go beyond, and it was clear, the traditional mechanisms of institutions, political parties, class associations and the media itself” - President Rousseff.

“Sorry for the inconvenience, we are changing the country” - Poster in protest.

Energy & Environment

New Mining Code

President Rousseff announced on Tuesday the new regulatory framework for mining. Following disagreements with her support base in Congress, she presented the Code in the form of a [Bill \(5.807/13\)](#) with a request for urgent appreciation of both Houses. Major changes are presented below:

| ISSUE | TODAY | NEW CODE |
|--|--|--|
| Financial Compensation for the Exploration of Natural Resources Aliquot | ✓ Specific aliquots for mineral (2% average) | ✓ No more specific aliquots—maximum value of 4% |
| | ✓ Aliquot on net billing | ✓ Aliquot on gross revenue of companies |
| Research and Mining | ✓ Interested companies request for the National Department of Mineral Production a research authorization. | ✓ Sole concession for research and mining, through public bid |
| | ✓ Mining authorization is granted afterwards by the Mines and Energy Ministry. | ✓ Minimum investment defined by contract Construction aggregated, ornamental rocks and water will be exempted from bid. |
| Concession term | ✓ Undetermined | ✓ 40 years, extendable for 20 years |

Other issues addressed in the Bill are the creation of the National Mineral Policy Council to assist the President in the formulation and implementation of mineral policy and the National Agency of Mining which will be in charge of regulating and overseeing the sector and promoting bids.

Next Steps

On Wednesday, the bill was introduced at the House. The bill will be open for amendments for five ordinary sessions and then committees will be designated. If there are more than three designated committees to discuss the merit, a special committee will be created to analyze the bill. After 45 days, the bill must be put to a vote on the Floor or it will block the voting of any other bills.

The flowchart below shows the likely Committees that will examine the bill in the House.



Local Content Certification

On Monday, the National Oil, Gas and Biofuels Agency (ANP) published [Resolution 19/13](#) which establishes the criteria and procedures for the Certification of Local Content. The Resolution was previously discussed in the Agency through public consultations.



Shale Gas

The House's Committee on the Environment approved [Requirement 237/13](#) in order to discuss the exploration of shale gas and the environmental impacts in the national territory. Members of the shale gas industry will be invited. Another Requirement was approved in the Senate's Social Issues Committee to debate the oil bidding rounds and the deterioration of the labor conditions. Neither audience has a set date yet.

Genetic Material

Last Friday, the Board of Genetic Patrimony (CGEN) published [Technical Orientation 8/12](#) for the applicability of the Food and Agriculture Organization (FAO) International Treaty on Plant Genetic Resources for Food and Agriculture.

According to the orientation, access, shipment and benefit sharing of phylogenetic resources samples when used for conservation, research, improvement and training purposes related to food and agriculture will have to comply with the rules set by the Treaty. On the other hand, access and shipment of samples obtained in the national territory *in situ conditions* and for chemical, pharmaceutical and other non-related industrial uses will be guided by [MP 2.186-16/01](#).

Trade

Guarantees to foreign trade operations

On Monday, the Foreign Trade Council (CAMEX) published [Resolution 42/13](#) which approves the conditions for the granting of guarantees to foreign trade operations by the recently created Brazilian Insurance Agency, also known as "Segurobras". The Agency provisions are:

- » Granting of guarantees against commercial, political and extraordinary risks in loans to foreign trade;
- » Granting of guarantees against risks of non-compliance with contractual obligations, and
- » Execution of all services related to export credit insurance, including analysis, monitoring, management of the granting of guarantees operations and credit recovery.

The main goal of the Agency is to cover the risks of exporters and of major infrastructure projects.

Health

National School Food Program

On Tuesday, the Ministry of Education published [Resolution 26/13](#) establishing guidelines for the National School Food Program (PNAE). Among the rules set is the prohibition to purchase and serve to students:

- » Drinks with low nutritional value such as sodas, artificial refreshments and ready-to-drink teas;
- » Canned goods, candies and ready-to-eat food.

Health Inspection Law

The inspection of medicines, pharmaceutical products, cosmetics, sanitizing products, and others, is currently regulated by [Law 6.360/76](#) and Decree 79.094/77. In order to update and simplify the legislation, the Executive Office is leading the review process in conjunction with the National Health Surveillance Agency (ANVISA) and the Ministry of Health. Some of the changes in discussion are:

- » Permit ANVISA to recognize inspections carried out by international agencies and foreign certification bodies;
- » Simplify the renewal process for products that have been in the market for over 10 years;
- » Change the deadline for the Agency to grant product records.

The Administration has no deadline to publish the new rules.

Did you know?

Debt clock: Brazilians taxpayers paid **over BRL\$ 732 billion** (US\$ 332.72 billion, approx.), since January 1, 2013 in taxes.
To monitor:
<http://www.impostometro.com.br/>

Tax evasion clock: Brazil lost with tax evasion **over BRL\$ 194 billion** (US\$ 97 billion, approx.), since January 1, 2013.
To monitor:
<http://www.sonegometro.com/>



The Pulse

Fasten Your Seatbelts: Bumpy Skies Ahead

Brazil's youth protests across the street of major cities have already taken international newspapers by storm. Under the slogan 'It is not about cents, it is about rights', protests begun as a consequence of nationwide hikes in bus and metro fares. Following five days of intense and violent-filled manifestations, the government figured out the message loud and clear: this is just *not* about bus fares, but rather about widespread corruption, heightening inflation, low quality public services and the overall politics.

President Rousseff felt the first bumps of the turbulence when she was booed in the Confederation's Cup opening game in Brasília. The boos were a confirmation of what last week's *Datafolha* poll showed and what the government was reluctant to accept: President **Rousseff will not survive everything**.

First, economically, things have been trembling for a few weeks now. Now that the global and U.S. economies have shown signs of recovery, Brazil's GDP growth looks much worse than it once appeared to be. Infrastructure concessions rounds have not attracted nearly as much interest as expected. Further, the Real has suffered severe losses over the past few weeks, despite tax exemptions by the Administration, and industry production is not picking up as the government hoped.

That, however, is not all. What remains to be seen in the upcoming months is the gradual reduction in real terms of wages and an almost certain rise in unemployment. The unemployment rate, one of the lowest ever, is likely to increase as economic turbulence intensifies in the second semester. Inflation is also not likely to roll back despite tremendous efforts by the Finance Ministry and the Central Bank. Finally, consumption will no longer continue to lead Brazilian growth, but may also prove to be a burden as consumers continue to take on debts with growing interest rates.

Politically, she is also in turbulent waters. Whereas politicians, including her main contenders for the 2014 presidential elections, are focusing on opening new parties and forming political coalitions, few have given attention to the ongoing protests. In fact, few politicians have understood that protesters are not stepping down, even with the reduction in the bus fares. Few have actually understood that this is not just about the mayor of São Paulo Fernando Haddad or President Rousseff--this is about *all* politicians. Brazilians and most notably the youth are sick and tired of politics being used in favor of politicians and not the country.

Needless to say, as unemployment rises strikes will continue and public dissatisfaction with the *status quo* can only grow.

What is important to be said is that despite not seeing clearer skies ahead, the plane is not going to crash. The country has built important pillars over the past two decades, continues to have the largest consumer market in Latin America and is one of the top 8 economies in the world.

As for President Rousseff, she will need the strength to use this **unprecedented time in public opinion history** to stick it to old Brasília politics and begin much needed structural reforms. Public opinion will quickly shift in her favor if the President has the courage to move past former President Lula's ways of pleasing Congressmen and **in fact stand by the people**.

