Brazil-U.S. Business Council

PATRI Public Affairs

POLICY MONITOR

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The Week in Review

ON THE ECONOMIC FRONT

11th round of bidding: The National Agency of Oil (ANP) held its 11th round of oil & gas block bidding on Tuesday raising BRL$ 2.8 billion (US$ 1.4 bi). Out of the 71 habilitated companies, there were 30 winners--18 of which were foreigners. The round was seen by the government as a success following 5 years of no bidding rounds. *See more below.*

Slave Labor: São Paulo's Governor Geraldo Alckmin signed a Decree regulating Law 14.946/12 which repeals the state registration of companies making use, directly or indirectly, of slave labor or analogous conditions. The Decree was signed on Monday, May 15, when the end of slavery in Brazil celebrated 125 years.

External Debt: A study done by Credit Suisse Bank showed that the Brazilian private and public external debt rose by 60% since the 2008 financial crisis. In the past for years, the debt grew from 12% of the GDP to 13.9%, mostly due to debt contracted by private companies. Another reason for the rising debt is the government's policy to increase taxation on inflows of foreign money (IOF), according to the Bank.

More Bad News: Two other studies, released this week, point towards the difficulties in reigniting economic growth. First, data by the Economist Intelligence Unit (EIU) portrayed that the Brazilian industry's performance in 2012 was the worst among 25 emerging countries. Second, a study by the Industrial Development Studies Institute ranked Brazil 13th (of 54) among countries with the highest costs for investment. Opening a factory, according to the Institute, is more expensive in Brazil than in Germany, the U.S. or the U.K.

Air Travel: Airfare prices have dropped, on average, 28.1% since the beginning of the year, according to the inflation index (IPCA). In April alone, prices decreased 9.12%. Numbers on bus transportation have remained stable.

ON THE POLITICAL FRONT

President's Week: The German President Joachim Gauck visited Brazil and met with President Rousseff on Monday. During the visit, which also included a Brazil-Germany CEO Forum meeting, the two Presidents reaffirmed the ties between the two countries, mostly in the area of science & technology.

Brazil - E.U. Free Trade Agreement: During the meeting on Monday with the German President, the Minister of Trade, Fernando Pimentel, stated that Mercosur will present the European Union with a free trade agreement proposal by July of this year. This could be seen as a response to (1) Roberto Azevedo's win to the Director-General post to the World Trade Organization (WTO); and (2) advancements in the U.S. and E.U. free trade agreement.

Exits: Four important members of President Rousseff's government announced their departures this week. Ministry of Finance's Executive-Secretary, Nelson Barbosa, one of the key decision-makers of the economic policy, announced his resignation effective on July. Alessandro Teixeira, nº 2 of the Development, Industry and Foreign Trade Ministry; Beto Vasconcellos, Chief of Staff of the Executive Office of the President; and Cezar Alvarez, Ministry of Communications, all announced their soon-to-be departures. With the exception of Alvarez, who is headed to the U.S. to finish his doctorate thesis, the three others resigned due to friction with the government.

Ports' Tragedy: After three tense days, the House and the Senate approved Provisional Measure (MP) 595/12, which creates a new legal framework for ports. The issue was the cause of tremendous controversy, causing the government to question whether it had control of its support base in Congress. The MP, if not voted, would have lost effect on Thursday at midnight. It now awaits Presidential sanction.

Same-Sex Marriage: The National Justice Council (CNJ) approved a resolution mandating all Notaries' Offices to perform same-sex marriages.

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Quotes of the Week

"A politician ethical, with irreproachable behavior, does not exist" – Luíz Inácio Lula da Silva, Former President

"Never before in the history of this country has the government support base looked so much like Titanic: big, populous and ready to sink" – Walter Feldman (PSDB), opposition Congressman

Trade

E-commerce Regulation

In force since Thursday, Decree 7962/2013 regulates electronic commerce contracts according to the Consumer Protection Code. As part of the National Policy for Consumer's Protection launched on March 15, the Decree determines the following:

» Online purchase websites must provide the company's name; corporate taxpayer's ID (CNPJ) number, mailing and email address; the product's or service's essential characteristics, including risks for health and safety; detailed additional expenditures; conditions of the offer (type of payments, availability, delivery) among other things.

» Deal-of-the-day websites must provide information on the minimum quantity of products purchased in order for the contract to be valid, the deadline of the offer and the identification of the supplier responsible for the offer.

» The supplier must show a summary of the contract before finalizing the deal, provide tools for the consumer to identify and correct errors before the conclusion, maintain an effective customer service, provide security information tools, and other requirements.

Imports' Tax

The Board of Foreign Trade (Camex) published on Tuesday Resolution 34/2013, which reduces to 2% the tax on imports to 157 goods, under the condition of ex-tariff, until December 31, 2014.

The benefited sectors were auto parts (20.86%), rail (16.45%), services (15.44%), oil (14.46%), telecom (7.26%), and paper and pulp (6.96%). Main countries of origin of the imports are: United States (28.81%), China (18.95%), Singapore (11.37%), Germany (10.25%) and Italy (6.49%).

The regime of ex-tariff is a government exemption list of capital goods, computer equipment and telecommunication goods which has its import tax temporarily reduced due to the inexistence of similar products produced domestically. The ex-tariff regime's main goal is to stimulate investments in national production.

Energy & Environment

11th Oil and Gas Bidding Round

After 5 years on hold due to pre-salt distribution discussions, ANP held on Tuesday its 11th round of bidding when 142 blocks of oil & gas were auctioned, ensuring investments in exploration of BRL$ 7 billion. As the new concession model has not been yet defined, the round was conducted under the old model in which the blocks' exploration is granted to the highest bidder.

Having raised BRL$ 2.82 billion - an increase of BRL$ 823 million from 2009 - the government perceived the result of the bid to be very positive. The numbers are even more surprising considering that no pre-salt block was auctioned in this bid. The blocks sold are located in the equatorial margin, an unexplored area off the northern and northeastern coast of Brazil.

The 142 blocks were sold to 30 companies, of which 18 were foreigners from 12 different countries. State-run Petrobras won 34 blocks, totaling BRL$ 1.46 billion (US$ 0.75 bi). Total (10 blocks, BRL$ 371.9 million) and British Petroleum (8 blocks, BRL$ 261.3 million), were, alongside Petrobras, as the biggest winners.

Exxon Mobil returned to the Brazilian market in a partnership with OGX, controlled by businessman Eike Batista. Reauthorized to drill, Chevron spent BRL$ 31.4 million in the bidding round.

The local content requirements demanded 62.32% for the exploration and 75.96% for the development.

ANP Internal Bylaws

On Monday, the ANP published Ordinance 96/13 changing the Agency's internal bylaws.

Government

U.S.-Brazil TIEA

President Rousseff published Decree 8.003/13 promulgating the 2007 tax information exchange agreement (TIEA) signed between the United States and Brazil.

Access to Information

The Brazilian Access to Information Law 12.527/2012 completed one year on Thursday having registered 87.119 requests for access to information with an average response time of 11 days. Access was conceded to 78.41% of the requests and denied to only 9.72% mostly because they concerned personal information, bank or fiscal secrecy.

Below is a breakdown of the requests for access by agency:

» The Superintendence of Private Insurance – SUSEP (8.487)
» The Social Security National Institute – INSS (7.407)
» Petrobras (5.322)
» The Central Bank (3.403)
» The Federal Economic Bank (2.809)
» The Ministry of Finance (2.464)
» The Ministry of Education (2.223)
» The Ministry of Labor (2.064)
» The Ministry of Planning (1.922)
» The Ministry of Health (1.894)

Did you know?

55 million of unbanked Brazilians will respond to a flow of BRL$ 665 billion in 2013. The amount is equivalent to the GDP of Colombia.

These people represent 39.5% of the adult population and half of them are in the middle-class.

Despite a recent increase in banking services usage, 4 in 10 Brazilians do not have a checking or savings account.

The main reason for this is: lack of banking agencies in small towns, financial problems that led to indebtedness, and high fees.

Source: Institute Data Popular, 2013

Open Government Partnership

In addition, Brazil approved the **2nd Plan of Action** of the Open Government Partnership (OGP) on May 7. The document was elaborated by the government and civil society. It entails 45 commitments made by the country and five challenges: increasing public integrity, enhancing management of public resources, improving public services, creating safer communities and increasing corporate responsibility.

Piracy Plan

The government launched the 3rd National Plan to Combat Piracy for the years of 2013-2016. The plan establishes the guidelines and goals that will guide the District Attorneys. Piracy prevention actions will be implemented through educational programs, economic incentives and repressive action. On the education front, a seminar will be held in December to discuss the issue. Priority will be given to sectors most affected. Economically, a national directorate of piracy combat will be created in conjunction with the National Institute for Intellectual Property (INPI). Finally, with respect to enforcement, the plan is to disseminate the Santa Catarina model, which has state councils for combating piracy.

The Pulse

Mexico x Brazil: Post WTO – Did Brazil Win the Battle or the War?

Mexico's defeat in the World Trade Center (WTO) Director-General's dispute, brought back to the media the debate on whether Brazil had beaten Mexico in the race towards the America's Sweetheart spot.

Since 2008, Brazil, alongside other BRIC countries, saw an exceptional growth despite slowdowns in the global economy. Brazil's growth, however, did not prove to last as seen by sluggish GDP results in 2011 and 2012, bringing back hopes that Mexico, with a new President, might regain the spotlight.

Policy Monitor presents below a comparative table, which may serve as tool to unveil the current economic conditions and international scenario of both countries.

	Brazil	Mexico
GDP	US$ 2,476 billion	US$ 1,153 billion
GDP Growth in 2012	0,9%	3,9%
Growth Projection for 2013	3%	3,4%
Growth Projection for 2014	4%	3,4%
GNI per capita	US$ 10,720	US$ 9,240
Foreign Reserves	US$ 352 billion	US$ 149 billion
Inflation	6,49%	4,65%
Unemployment Rate	5,7%	4,9%
FDI Flow	US$ 71,538 billion	US$ 20,823 billion
Listed Companies	353	131
Trade Balance	- US$ 994 million	US$ 1,174 million
Number of Free Trade Agreements (FTAs)	4 as Mercosur	17
% of Global Trade - Exports	1,4%	1,9%
% of Global Trade - Imports	1,3%	2%
Growth in Trade - Exports	27%	17%
Growth in Trade - Imports	24%	16%
% Exports to China	17%	0,9%
Position in Doing Business Index	130º	48º
Days to Start a New Business	119	9
% of Roads Paves	13,5%	36,4%
Rail Lines (in km)	29,817	26,704
Internet Users (in 100)	45	36,2

Brazil's victory to the WTO was important to the government and the Ministry of Foreign Relations (MRE). As both countries have been tireless demanding a bigger representation in international forums, the WTO victory was certainly a battle won for Brazil. But, as numbers correctly show, Brazil is still ways away from solving some of its structural problems.

The war, therefore, is far from over.

Sources: World Bank, IMF, OAS, WTO, OECD, IBGE and MDIC.

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