

# The Week in Review

## ON THE ECONOMIC FRONT

**Budget Cuts:** On Wednesday, the Administration announced a BRL\$28 billion cut in the 2013 Union's Budget amounting to a BRL\$ 937.9 billion budget this year. Main governmental programs as the Growth Acceleration Program (PAC), *Minha Casa Minha Vida*, the World Cup and Olympics, as well as resources for the Ministries of Health, Education and Science and Technology, were not affected by the cuts. The goal is to reduce the primary surplus from 3.1% to 2.3% of the GDP, depending on tax collection. In Brazil, the Union Budget Law approved by the Legislative is authoritative which means that the Administration is not required to comply entirely with the text's provisions.

2013 Union budget highest cuts (BRL\$ billion)		
Ministry	Budget	Cut
Cities	24.467	5.025
Defense	18.718	3.678
Tourism	2.660	1.967
National Integration	8.064	1.626
Sports	3.288	1.5
Transportation	17.783	1.262

Source: Ministry of Planning, Budget and Management

**Mining Code:** The government has postponed sending the new mining legal framework to Congress due to political difficulties in the government's support base. The new code will boost investments and increase the royalties' collection by the Union and the States.

**Pre-Salt Bidding Round:** On Thursday, the National Council of Energy Policy (CNPE) issued [Resolution 4/13](#) authorizing the National Agency for Oil (ANP) to perform the first bidding round under the Production Sharing regime in the Pre-Salt areas in October. The offer is for area "Libra", in the Santos basin. The Agency will establish conditions for the contract and date of the bidding and submit it to public consultation.

## ON THE POLITICAL FRONT

**President's Week:** Rousseff began the week in Pernambuco, the State of her potential competitor governor Eduardo Campos. Both were present in the inauguration of a stadium for the World Cup. During the week, the President met with Ambassador Roberto Azevedo, new WTO director-general. On Thursday, Rousseff traveled to Adis Abeba, Ethiopia, to celebrate the 50 years of the African Union and thank the countries for their support to the Brazilian bid to the WTO director-general post.

**Rousseff in DC:** Rousseff's visit to the United States was officially announced this week. The President will be received by the White House on October 23.

**Biden in Brazil:** Joe Biden arrives next Tuesday and will meet with the Vice-President Michel Temer on the 31<sup>st</sup>.

**Minister Patriota in DC:** Earlier this week, the Foreign Relations Minister Antonio Patriota held meetings in Washington to discuss issues on the bilateral agenda with John Kerry, Tom Donilon, and Michael Froman, the new U.S. Trade Representative. The meetings were part of the Brazil-U.S. Global Partnership Dialogue. Also this week, the State Department announced the departure of U.S. Ambassador to Brazil, Thomas Shannon. Shannon is bound to leave by the middle of year. His replacement has not yet been designated.

**PSDB Election:** Senator and unofficial presidential candidate Aécio Neves was elected the national president of the PSDB party.

**Supreme Court:** Rousseff appointed progressive attorney Luis Roberto Barroso to a vacant seat at the Supreme Court. Barroso has solid liberal views defending public interest concerns, such as stem cells, anencephaly, distribution of medicines and homo-affective relations. His nomination must be approved by the Senate.

**Bolsa Família:** Rumors that the Bolsa Família program would be canceled caused chaos in bank agencies in 12 states. The program grants BRL\$ 140 (\$70) each month for 13 million families based on certain conditions as school attendance. The government confirmed the continuation of the program and promised to bring those responsible for the rumor to justice.

**2014 Election Calendar:** In 2014, Brazilians will choose their President, Governors, Senators, as well as Federal and State Congressmen on October 5 and 26, in case of a 2<sup>nd</sup> round, according to the Superior Electoral Court.



# Government

## Mobile Payment

President Rousseff published Provisional Measure (MP) 615 on Monday allowing financial transactions through mobile devices. The text refers to “payment institutions” which may be card issuers or telecommunication companies, but not institutions that conduct activities exclusively to financial institutions such as loans and financing. These “payment institutions” are allowed to manage payment accounts, provide money withdrawal and manage the use of electronic means of payment.

Some of the goals and principles established to the provision of the services include:

- » Interoperability
- » Competition promotion
- » Non-discriminatory access to services and infrastructure
- » Support to the needs of the final consumers
- » Reliability, quality and security in the means of payments
- » Social and financial inclusion

Further, the MP delegates the regulation authority to the Central Bank (BCB), under the guidelines of the National Monetary Council (CMN). Some of the Bank’s functions are determining taxes, establishing operation guidelines, and limiting or suspending the sale in case of violations.

The justification for the Measure is to stimulate economic inclusion by allowing new means of payment in the traditional banking framework. The Measure, unexpectedly, does not fully detail or define the functioning of m-payments in the country. The Central Bank, the Ministry of Communications and the National Telecommunications Agency will publish norms in the next six months regulating the conditions for the provision of the m-payment services.

The MP should be voted by September 30 or it loses its validity.

## Political Scenario

Following controversies in the rushed vote of the Ports MP, the President of the Senate Renan Calheiros (PMDB) announced that no MP will be voted if the expiration deadline is less than seven days away. During the Ports MP vote, the internal bylaws of the Senate were not followed as they required a 2-day waiting period in the Senate before the vote. The MP was voted less than 2 hours after having been voted in the House. Currently, eight MPs are to lose their effect on June 3 and have not yet been voted in the House. Taking into account the *Corpus Christis* holiday next week, Congress’ outlook is complicated to say the least. Some of the MPs to be voted include MP 600/12 on airport logistics and MP 601/12 on incentives for exporters.

## Consumer Protection

The National Consumer Secretariat (SENACON) published a first draft of the list of consumer goods dimmed essential:

- » Health products (to be established by the Health Ministry)
- » Oven
- » Fridge
- » Washing machine
- » Phone devices
- » Television

Stores will have two days to replace the product, refund the amount paid or give store credit in cases of defect, according to the National Consumer Policy created on March 15.

### Did you know?

Oil companies have reduced their **local content percentage** to the lowest level ever in last week’s bidding round.

The local content requirements were established in 2005.

	Exploration	Development & Production
2013	62,25%	75,94%
2008	79%	84%
2007	69%	77%
2005	74%	81%



# Tax & Investment

## Imports Requirements

Following difficulties to reach an agreement, the National Finance Policy Council (CONFAZ) decided on Wednesday to revoke the National System of Economic and Taxes Information (*Ajuste Sinefe*) 19/12, which regulated the Resolution that put an end to the war on ports (Senate Resolution 13/12). The requirements of additional information on the costs of imported goods in invoices issued for interstate operations were considered abusive by companies. A **new rule** (*Convênio ICMS 38/2013*) was published on Thursday maintaining the requirements of information without violating businesses' confidentiality. Further, it establishes criteria of content to determine if the good is domestic or imported, as well as postpones the non-punitive supervision until August 1<sup>st</sup> when the new rule will come into force.

## Drawback Regime

Last Friday, [Decree 8010/13](#) was published introducing new rules on the special customs regime of drawback. The regime provides incentives for exports as it exempts taxes on the purchase of imported inputs by the domestic market. Main changes are:

- » Allows the import or acquisition in the domestic market of oil and derivatives as inputs for the manufacture of goods to be exported, such as plastics and chemicals.
- » Updates the rule including the drawback types of suspension and exemption of taxes which are already in force.
- » Includes the possibility of replacing imported or domestic inputs, with favorable tax treatment, by other equivalent goods of the same type, quality and quantity. (This measure withdraws the requirement of physical identity between the inputs imported or purchased locally and those used in the production of exported good for the granting of the drawback regime).

# Defense & Security

## Incentive Program

The Brazilian Innovation Agency (FINEP) launched the [Inova Aerodefesa Plan](#). The program will destine BRL\$ 2.9 billion for the sectors of defense and aerospace in the forms of credit, economic subvention, ICT cooperative and variable revenue. The National Development Bank (BNDES) will be in charge of disbursing BRL\$ 500 million and the Ministry of Defense and Brazilian Space Agency are allowed to order and conduct strategic acquisitions. The announcement was made on Saturday by the Minister of Science, Technology and Innovation, Marco Raupp. Specific areas to receive special financing are spacecraft propulsion, sounding rocket and satellite launch vehicles.

## Airplanes & Airports

Brazilian aircraft manufacturer Embraer announced the sale of 40 E-175 jets to the American airline Sky West, with an approximate value of US\$3 billion. The deal also allows for the option of another 160 jets.

On another note, a study done by *Fundação Getúlio Vargas* (FGV) portrayed that the average number of landings and take-offs per hour in Brazil is 38, representing only 43% of the international average (currently at 88).

# Health

## Products Recall

The Brazilian Health Surveillance Agency's (ANVISA) board approved a Resolution regarding guidelines for products' recall to be subject to public consultation. The measure is a response to the contamination of food items by cleaning products at *AdeS* (Unilever) and *Toddyinho* (Pepsico). The regulation includes rules such as: I) notice to the Agency of the recall procedures within 24 hours; and II) disclosure of information on how many contaminated goods were produced or imported and distributed. The Resolution also grants the Agency the power to make recalls regardless of companies' actions.

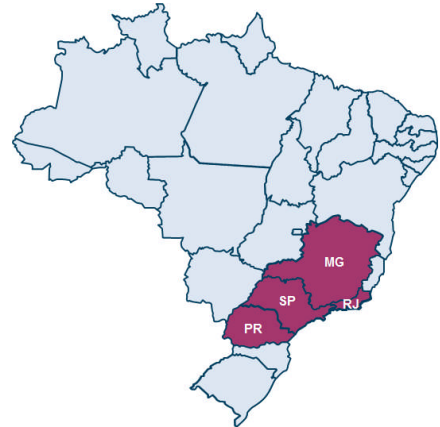


# The Pulse

## Governors' Races: Top Disputes to Watch in 2014

### 1) São Paulo

São Paulo accounts for 21% of the population and 33% of the Brazilian GDP. The state has also been traditionally right-leaning, which explains PSDB having held power for 22 consecutive years. PT won an important battle in the state when it won over former Mayor, Governor and presidential candidate José Serra (PSDB) in the São Paulo's capital mayoral elections of 2012. Now, the party aims for the governorship of the state. Current Governor Geraldo Alckmin (PSDB) is going to run for reelection despite not so great approval ratings (29% last as of November). His reputation has also been slightly affected by the Vice-Governor Guilherme Afif's (PSD) decision to simultaneously assume a post at the Rousseff's government. His chances are not so slim only because PT, up until now, has not yet decided who will be the party's candidate. So far, the Minister of Health, Alexandre Padilha, Minister of Justice, José Eduardo Cardoso, and mayor of São Bernardo do Campo, Luiz Marinho, have been considered. The latest news is that Rousseff and Lula are trying to convince the current Minister of Education and former Congressman and Senator, Aloizio Mercadante, to run. The dispute is likely to be concentrated on a fight between PT and PSDB, however, PMDB will once again be able to shift the balance by giving its support to one of the parties. Who will it be is still to be known.



### 2) Minas Gerais

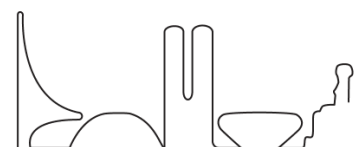
With the unofficial launch of Aécio Neves as the PSDB candidate for the presidential elections, one would think current Governor Antônio Anastasia (PSDB) would have it easy in his reelection run in a state also traditionally dominated by the party. However, newcomer and potential presidential candidate Eduardo Campos (PSB), Governor of Pernambuco, has shifted the game. Campos is trying to push forward a PSB candidate for the state. The first person he spoke to was Márcio Lacerda (PSB), mayor of the state's capital, Belo Horizonte. Lacerda was reelected in the first round with 52% of the votes, however, doubtable a sufficiently strong contender to the incumbent. An important contender to Anastasia will be Minister of Development, Industry and Trade and Minas Gerais' native Fernando Pimentel (PT). In this state, the dispute might replicate the federal disputes with PT, PSDB and PSB holding the first three spots, not necessarily in this order.

### 3) Paraná

PT and PSDB are also likely to come head-to-head in the southern state of Paraná. The current Governor Beto Richa (PSDB) will fight for his incumbent seat against the government's chief of staff, Gleisi Hoffman (PT). Hoffman was elected Senator in 2011 but held the post briefly as she was soon thereafter called to be Rousseff's right hand-woman. Rumors going around were that the Minister would even leave her post this year to begin working more closely to public. So far, Rousseff has still not relieved Hoffman of her post, making it harder for her to get acquainted to her electorate. If the Minister does not act quickly, she will have a lot of ground to gain during the campaigns to make up for her unknown persona vis-à-vis the current and popular (70% approval) Governor. PMDB may also make an appearance with the candidacy of Senator and former Governor Roberto Requião, currently lagging behind in third in the polls.

### 4) Rio de Janeiro

The current Vice-Governor, Luiz Pezão (PMDB), has already unofficially announced he will run to take over Sérgio Cabral's (PMDB) post as the Governor of Rio de Janeiro. The problem is that Senator Lindbergh Farias (PT), former mayor of Nova Iguaçu, has also put forth his intent to run in 2014, with the support of former President Lula da Silva. PMDB is the government's strongest ally in Congress with 79 Congressmen and 20 Senators. Congressman and former Governor of the state, Anthony Garotinho (PR) and councilman and former mayor of Rio de Janeiro, Cesar Maia (DEM) are also likely to run. If the dispute between PT vs. PMDB is confirmed, the battle is likely to have consequences in the presidential elections as Jorge Picciani, Regional President of PMDB, has already stated that the regional wing of the party will not support Rousseff's bid to the Presidency.



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