



POLITICAL SCENARIOS

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AGENDA AND ANALYSIS FOR THE MONTH
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TWO MONTHS OF DILMA ROUSSEFF



President Dilma Rousseff has just completed two months in office. The balance is positive. Allies were elected for the House and Senate chairmanships. She won the minimum wage battle after standing firm in her negotiation with labor unions and obtaining expressive ally support during voting. On the fiscal side, she announced budget cutbacks amounting to R\$ 50 billion. Despite some doubts, the news was well accepted by the market. Although she has yet to clearly define a legislative agenda, a series of important bills will be discussed in National Congress in March. Besides the Political Reform, 19 provisional measures are waiting voting in the House and Senate. Also to be debated are issues such as the Forestry Code and the technological convergence Bill, amongst others. Even though not amongst the President's priorities, with the exception of the unburdening of the payroll, the labor and social security agenda will be the object of major debates in National Congress, especially amongst the business community and labor union benches. However, social security aspects will only be put to the vote if favorable signals are issued by the Executive Branch.

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 ANNEX
 March agenda

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1. TWO MONTHS OF ROUSSEFF

The balance of the first two months of President Dilma Rousseff's administration is positive. Even though there has been some political friction, and there remains a certain discomfort within the allied base stemming from the division of positions, Rousseff has come through well in all the main aspects as a President.

Within the political field, she guaranteed the election of two allies for the House and Senate chairmanships and managed to approve the R\$ 545.00 minimum wage and the policy for its adjustment up to 2015.

In the distribution of Executive Branch positions, Rousseff faced pressure but managed to place appropriate names in the second echelon.

Amongst the press, her image is good and she has been given appropriate treatment, better than that received during the electoral campaign.

Another relevant issue is the "weaning" of the Lula era. Rousseff has managed to impose her rhythm and her "social-technocratic" features without problems. It is no longer said that Lula is behind her administration, even though the former president has a relevant role as a political counselor.

Within the economic field, Rousseff is faced with three large problems: foreign exchange, inflation and public expenditure. Her reaction was to determine austere measures. These were well accepted, even though some analysts believe that the measures announced are insufficient and/or will not be entirely complied with.

The good performance up to now projects good prospects for the next 60 days, even though some challenges are surfacing: the definition of her legislative agenda in Congress for the semester; management of nominations for second and third echelon positions; effects of the budget cutbacks on the allied base (Senate chairman José Sarney, recognizes that the cutback of R\$ 18 billion in Member of Parliament amendments generates a certain "discomfort" amongst parliamentarians); and the repercussions of the Arab crisis on the Brazilian economy.

Finally, Rousseff's brand was clearly stamped on several instances:

- a) When she didn't accept allied pressure for positions, to the point in which moments of tension were generated between government and parties;
- b) When she didn't accept correcting the income tax table before guaranteeing her proposal for the minimum wage;
- c) When she faced the labor unions and allied parties in defense of the R\$545.00 minimum wage;
- d) When she disseminated a more discrete style, influencing ministers and aides to have a more cautious posture in relation to sources and press.

2. POLITICAL ENVIRONMENT

The Rousseff administration took full advantage of the privileged size of its political base in Congress to elect allied chairs in Congress and also rapidly approve the new minimum wage. Both victories were significant.

However, concrete results in Congress do not reflect the existing tensions between pro-government base parties. There are focal points of dissatisfaction which remain from the distribution of ministries, which lead to the choice of second and third echelon government positions.

These focal points of tension are within the PT itself, the PMDB, PSB, PTB and PSC. Within the PT, the issue lies within the division of groups present in the House, which resulted in disputes for the most important committees. Apparently, the situation has now calmed down some.

Within the PMDB, however, the environment is still not good. There is much dissatisfaction regarding the ministerial division; many feel that they have lost political space in comparison to the party's situation during the Lula administration.

The PSC, with its 27 representatives, expects to have a similar treatment to other base parties of similar size or smaller. Without any current chances of having a Minister, the party is fighting to gain positions within the second echelon.

As far as the specific demands of the base are concerned, we don't believe that these will be capable of creating difficulties for the government during this first year of its mandate. Firstly, because Congress traditionally tends to have a friendly posture towards the Executive Branch. Secondly, the government is well assessed by public opinion. Thirdly, 2012 is a municipal election year and it is within member of Congress interest not to be at odds with the *Planalto* Palace.

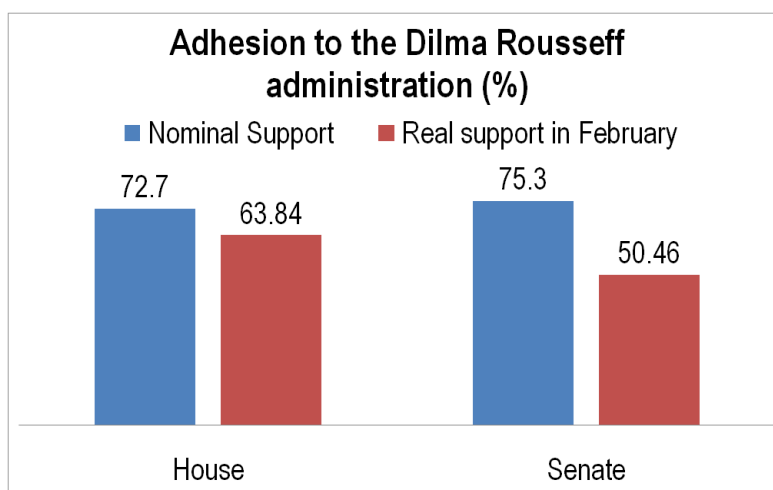
It is worthwhile highlighting that the opposition is weakened. The Mayor of São Paulo, who will leave DEM at the end of March, is articulating the creation of a new party, the Brazilian Democratic Party (PDB). Other DEM members may also leave the party. The trend is that the new party will join the pro-government base in Congress.

The PSDB is also going through an important moment of definition. There will soon be a new election for the party presidency. Some prefer the continuity of the mandate of current president, Representative Sérgio Guerra. Others wish to elect José Serra. Behind the dispute lie the 2014 presidential elections.

In light of the frailty of the opposition, the pro-government base is even more tightly bound in relation to bills of interest to the *Planalto* Palace. An Arko Advice survey carried out in February confirms this. According to a study based on eight nominal and open voting sessions in the House and three in the Senate, it is possible to see that Dilma Rousseff obtained expressive support in both Houses during the first month of National Congress legislative activity.

In the case of the House, besides voting sessions related to the minimum wage, provisional measure voting sessions were also analyzed.

Pro-government base adhesion recorded during the month was less than nominal support. In the House, allies amount to 373 votes, equivalent to 72.70% of the House total; in the Senate, 61 (75.30%). However, amongst representatives, average support in February was 63.84%, which reveals a difference of 8.86%. In the Senate, the average was 50.46%, an even larger difference: 24.84%.



Whatever the case, this result was above the average recorded during the Lula administration (2003-2010). Average support for the former president in the House was 51.37% and 48.66% in the Senate.

Two other issues might stir up politics in March. Now, with the composition of the Supreme Federal Court (STF) complete, applicability of the “Clean Slate Law” (*Ficha Limpa*) may be defined for October’s elections. In light of the fact that last year, the ruling was tied at 5 X 5, the Superior Electoral Court’s understanding prevailed, which was for its validity already in 2010. As such, some of the elected politicians were barred from taking office, as was the case with Jader Barbalho in Pará. Another issue is that of interim mandates. The STF understanding is that, should a Member of Parliament take leave, he or she should be replaced by an interim from the same party. However, for many politicians, the seat should be taken by the coalition’s first interim.

3. LEGISLATIVE AGENDA FOR MARCH

The government has yet to clearly define its legislative agenda for March. However, there is a set of provisional measures pending voting. In all, these amount to 19, 18 remaining in the House (508 to 525) and one in the Senate (507). Once approved by the House, these MPs will follow on for examination by senators. A new measure readjusting the income tax table for individuals by 4.5% is also expected to be submitted soon.

Throughout March, there will be ample debate surrounding the Political Reform. In the Senate, the objective is to submit a final bill for the Political Reform to the floor by April 8. For this, Committee Chairman Francisco Dornelles has scheduled a series of meetings for this month. During the first meeting, convened for March 15, the new

rules for senatorial substitutes and a change of date for taking of office by the President of the Republic, governors and mayors, will be discussed. Optional voting, reelection and duration of mandates, will be discussed on March 17; electoral systems and end of proportional regional coalitions, on March 22; public campaign financing, party performance clauses and independent candidacies, on March 24; and party loyalty, affiliation and electoral domicile, on March 29. The last two meetings, scheduled for March 31 and April 5, will be reserved for the preparation of the final text.

In the House, a Special Committee was also installed to discuss the issue. The Committee will have 180 days to analyze all propositions being processed in the House regarding the issue and offer a consensual bill to be voted by the floor. This is not the first time the House has created a special committee for the issue. Being polemical, the issue was submitted to the floor in 2007, but was not concluded due to lack of consensus.

Other issues may also be discussed in National Congress, as follows:

Forestry Code. A Forestry Code Negotiation Chamber has been installed and is under discussion in the House of Representatives. The objective is to bring together the government, representatives of the ruralist and environmentalist benches and the reporting representative for Bill of Law 1876/99, Representative Aldo Rebelo (PCdoB-SP), to negotiate a consensual text. One of the most polemic points of the bill is the proposition for the prohibition of opening of new areas for agriculture or cattle raising on any property in the country over the next five years — a deforestation moratorium. In exchange, areas that were in use for farming/stock raising up to July 2008 will be recognized and regulated.

The five-year time period is the time the Union and states will have to prepare their Ecological-Economic Zoning (ZEE) and basin plans, install hydrographic basin committees and prepare their environmental regulation programs.

Therein lays one of the strongest environmentalist arguments: the text provides for deforestation moratorium exceptions for those cases in which deforestation authorization has already been expedited or given protocol up to the date of the law's promulgation.

The reporting representative diminished the deadline for farmers to recompose deforested areas from 30 to 20 years. Rebelo recalled that the 20 years are added to the five of moratorium. In his opinion, 25 years is a reasonable amount of time.

The report suspends penalties for farmers that committed environmental crimes up to July 2008. Thus being, farmers can continue with their activities in legal reserve areas until the Environmental Regulation Program is prepared, in other words, a five-year window.

Telecommunications. In the Senate, the debate surrounding PL 116/10 continues, which establishes the new legal benchmark for paid TV; besides providing for telecommunication company participation in content broadcasting, interconnectivity between communication and radio broadcasting; and content production, the bill also creates a fomentation policy for Brazilian audiovisual content by establishing quotas for national production.

With only one reporting representative, Senator Eunício Oliveira (PMDB-CE), the bill will be reported to the floor between the end of March and end of April. The government has interest in the bill's approval, which will place television broadcasters, program producers, and telecommunication companies, amongst other players into intense negotiation.

Another important issue within the telecommunication area is broadband. Currently being processed in the House is Bill of Law 6.870/10, authored by Representative Inocêncio Oliveira (PR-PE), which provides for the use of the Telecommunications Services Universalization Fund (Fust) for the installation of broadband Internet service in municipalities with less than 100,000 inhabitants. The proposition alters Law 9.998/00, which institutes the Fust.

Electric Power. In the electric power sector, the issue that stands out is possible voting in the House on the legislative decree bill which triples the amount paid by Brazil to Paraguay for excess power produced by the Itaipu hydroelectric plant.

It is also important to mention that a bill obliging electric power concessionaires to reimburse approximately R\$ 7 billion unduly charged consumers for their electric power bills from 2002 to 2009, as assessed by the Electric Power Tariffs Parliamentary Inquiry Committee (CPI), is being processed in the House. The measure is part of Legislative Decree Bill 10/11, authored by representatives Eduardo da Fonte (PP-PE) and Weliton Prado (PT-MG), which annuls National Electric Power Agency (Aneel) Act 3.872/10, responsible for legalization of the levy.

Mining. The big issue in the sector is the debate – as yet within government – as to changes to the Mining Code. Three points are under discussion: new royalty levying method; creation of a regulatory agency for mining; and new rules for the concession of mining areas. In March, the government should proceed with the formatting of the propositions. The bill that provides for the increase of the CFEM rate was submitted to the Ministry of Finance in February. It is the Ministry that will decide on the increase, whose rate might be as much as 4%. Following that, the bill will follow on to the Civil Cabinet.

4. LABOR AND SOCIAL SECURITY AGENDA IN GOVERNMENT AND IN CONGRESS

Although not part of President Dilma Rousseff's priorities, the labor and Social Security agenda - with the exception of the unburdening of the payroll - , will be the object of major debates in National Congress, especially amongst the business community and labor union benches. However, social security aspects will only be voted pursuant to an Executive Branch green light.

Programmatically, President Rousseff's administration will not propose any measure that will tend to provide flexibility to or suppress labor rights of current insured parties, both because she wishes to avoid polemic issues and because these issues were not the object of debate in the presidential election, not even by opposition parties.

However, this won't have the power to stop discussion of or deliberation on these issues in Congress. The business community bench, which has doubled in size, will prioritize the labor reform and unburdening of the payroll, also because their members participated in the electoral campaign, amongst other reasons, to promote the tax reform and apply pressure for changes that promote more flexibility for labor rights.

At least eight propositions in the Social Security and labor area are amongst the business community bench priorities in Congress, with four to reject or not allow voting and another four to approve.

The first group includes the PEC (Constitutional Amendment Proposition) to reduce the working week; the six-month maternity leave PEC; the PL (Bill of Law) that increases union leader job stability; and the Message that proposes the ratification of ILO Convention 158, which provides for the prohibition of employment termination without a valid reason.

In the second category are propositions that: 1) authorize individual transaction and homologation by Labor Justice; 2) increase the possibility of outsourcing services; 3) reduce taxation on the payroll; and 4) provide more flexibility to the CLT (Labor Laws Consolidation) in order to allow prevalence of negotiation over legislation.

The union bench, on the other hand, besides defending the extinction or greater flexibility of the Social Security factor, intends to oppose itself up ostensibly to the business community bench's propositions, including the slave labor PEC in this group.

In our scenario, chances of approval of some of the propositions of interest to the labor union bench are reasonable, especially the PEC to combat slave labor; the six-month maternity leave PEC; and job stability for union leader and their interims, including that of the fiscal Council and representative delegates, as well as greater flexibility of the Social Security factor, for which there are prospects of banking on Federal Government support. Of those items of interest to economic categories, the one with greatest chances is the one providing for the unburdening of the payroll, which banks on the support of President Rousseff. However, there probably won't be a general unburdening, but most likely specific per sector. It is also highly unlikely that payroll unburdening will take effect in 2011.

However, issues such as the reduction of the working week, outsourcing and ILO Convention 158 won't have chances of approval, unless with an unlikely agreement between the government, labor unions and employer confederations. An eventual Social Security constitutional reform targeted at adopting a minimum age for private initiative workers, even if only for future insurees, would also have remote chances of success.

Judging by the presidential agenda and correlation of forces within Government and Parliament, the trend is for specific changes to labor and Social Security legislation, without great structural reforms or ruptures.

5. ECONOMIC ENVIRONMENT

From the macroeconomic aspect, concerns are centered into three basic aspects: inflation, foreign exchange and public expenditure.

For some people, expectations with regards to the three issues are moderately negative for the short-term scenario inasmuch as:

- a) Even though having presented a slight deceleration, inflation continues to be a concern;
- b) Despite various government initiatives, the exchange rate continues to be valorized and impacting our international trade;
- c) In as much as the announced public expenditure cutbacks are concerned, they still concern the market, which hopes that it will continue to decrease and that the reduction will be significant.

As another negative pressure on the economic situation, we have the new Arab countries crisis, which might both export inflation to the world as well as impact the already impacted Brazilian exports.

As a positive collateral effect, oil valorization positively affects investment in the pre-salt layer oil.

Inflation, as measured by the Amplified Consumer Price Index - 15 (IPCA-15) was 0.97% in February in comparison to 0.76% in January. The accumulated high is 1.74% in 2011, an increase of 6.08% over the 12 months ended in February.

The inflationary picture, as well as the Rousseff administration's commitment to contain inflation, indicates that the Central Bank should yet again increase the interest rate and, eventually, adopt other credit restriction measures targeted at containing inflation.

The interest rate increase will have an immediate effect on the cost of public debt rollover and may oblige the government to adopt complementary expenditure cutback measures, besides the already announced R\$ 50 billion in budget cutbacks.

National Treasury Secretary Arno Augustin defends the approval of a limitation factor on cost expenditure. The measure may be included in a bill of law already in Congress, which restricts increasing expenditure on personnel.

Nonetheless, as is already known, the measure is not popular and might face approval difficulties at the legislative level. Plus, the larger responsibility burden as far as public expenditure is concerned lies in controlling expenses.

In an interview to the Estado de São Paulo newspaper (10/01/11), Augustin stated that he did not see a risk in losing control over inflation and indicated that the exchange rate problem was a much greater concern for the government.

According to him, inflation is a sporadic problem, which has to do with commodities, and is being combated by expense cutbacks. However, he feels that the exchange rate is a more complex problem because it is permanent.

In January, foreign exchange market interventions by the Central Bank (BC) through reverse swap operations appeared not to have a significant effect in containing valorization of the Real. So much so that a positive foreign exchange flow of US\$ 15.513 billion was observed, the highest recorded since June 2007.

Therefore, everything indicates that we will continue to have a foreign exchange issue centralized in the valorization of the Real and in pressure from imports on the balance of payments as the focus of concern for Brazil.

Up to April, the Ministry of Development, Industry and Foreign Trade should present a set of propositions targeted at protecting Brazil from disloyal trade practices in imports. Minister Fernando Pimentel confirmed that the government is maintaining its plan to gradually reduce taxation on payrolls and should implement measures, possibly in April, to anticipate devolution of taxes unduly charged to exporters. Protection measures against imports should also come out in April, with the new Productive Development Policy, which will introduce novelties as far as innovation and patents go.

Despite fears with regards to public expenditure, government signals were clear as to what it will do to avoid having the issue affect inflationary behavior which, in summary, is a large economic problem with political repercussions.

6. REGULATORY AGENCIES

There are 12 board openings in regulatory agencies pending nominations: three at ANTAQ; two at Anvisa; ANS; and ANP; one at Anatel; ANTT; and Ancine.

The mandates of two National Civil Aviation Agency (ANAC) directors expire in March: that of President Solange Paiva and director Claudio Passos Simão, both on the 19th. Solange Paiva as already stated that she will leave the agency. Passos Simão's reinstatement has already been submitted to the Senate.

Dirceu Barbano is occupying the Anvisa presidency as interim. Over the next few days, President Dilma Rousseff will choose a president for the Agency. Director José Agenor da Silva is one of the most likely candidates. Jaime César de Moura Oliveira was nominated for one of the two available seats. The other director should also be nominated in March.

Bruno Sobral de Carvalho's name is also waiting voting in the Senate, having been nominated for the ANS. Ahead; see the composition of the regulatory agencies and mandates of each of its directors:

Political Scenarios

NATIONAL TELECOMMUNICATIONS AGENCY (LAW # 9.472/97 AND DECREE # 2.338/97)		
Name	Position	End of Mandate
Ronaldo Mota Sardenberg	President	11/04/2011
Jarbas José Valente	Council Member	11/04/2014
João Batista de Rezende	Council Member	11/04/2013
Emília Maria Silva Ribeiro	Council Member	11/04/2012
Vacant	Council Member	-

NATIONAL CIVIL AVIATION AGENCY (LAW # 11.182/05 AND DECREE # 5.731/06)		
Name	Position	End of Mandate
Solange Paiva Vieira	Director-President	03/19/2011
Carlos Eduardo Magalhães da S. Pellegrino	Director	03/22/2014
Claudio Passos Simão*	Director	03/19/2011
Ricardo Sérgio Maia Bezerra	Director	03/16/2015
Rubens Carlos Vieira	Director	03/17/2015

* Reinstatement requested to the Federal Senate by President Rousseff on 03/04/2011.

NATIONAL SANITARY VIGILANCE AGENCY (LAW # 9.782/99)		
Name	Position	End of Mandate
Dirceu Brás Aparecido Barbano	Director President	10/10/2011
José Agenor da Silva	Director	05/29/2013
Maria Cecília Martins Brito	Director	03/25/2012
Vacant*	Director	-
Vacant	Director	-

* Jaime César de Moura Oliveira's name was submitted to the Federal Senate on 02/24/2011.

NATIONAL SUPPLEMENTARY HEALTH AGENCY (LAW # 9.961/01)		
Name	Position	End of Mandate
Maurício Ceschin	Director President	10/27/2012
Eduardo Sales	Director	08/20/2013
Leandro Reis Tavares	Director	11/22/2012
Vacant*	Director	-
Vacant	Director	-

Bruno Sobral de Carvalho's name was submitted to the Federal Senate for appreciation on 02/24/2011.

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NATIONAL PETROLEUM AGENCY (LAW # 9.478/97 AND DECREE # 2.455/98)		
Name	Position	End of Mandate
Haroldo Borges Rodrigues Lima	General Director	11/22/2011
Allan Kardec Duailibe	Director	11/06 /2012
Magda Maria de Regina Chambriard	Director	11/06/2012
Vacant	Director	-
Vacant	Director	-

NATIONAL ELECTRIC POWER AGENCY (LAW # 9.427/96)		
Name	Position	End of Mandate
Nelson José Hubner Moreira	General Director	03/12/2013
André Pepitone da Nóbrega	Director	08/13/2014
Edvaldo Alves da Santana	Director	12/22/2013
Julião Silveira Coelho	Director	12/22/2013
Romeu Donizete Rufino	Director	08/13/2014

NATIONAL WATERWAY TRANSPORT AGENCY (LAW # 10.233/01)		
Name	Position	End of Mandate
Fernando Antonio Brito Fialho	General Director	02/08/2012
Tiago Pereira Lima	Director	02/13/2013
Vacant	Director	-
Vacant	Director	-
Vacant	Director	-

NATIONAL LAND BORNE TRANSPORT AGENCY (LAW # 10.233/01, LAW # 10.561/02 02)		
Name	Position	End of Mandate
Bernardo Figueiredo	General Director	02/18/2012
Ivo Borges de Lima	Director	02/18/2013
Jorge Luiz Macedo Bastos	Director	02/18/2014
Mario Rodrigues Junior	Director	02/18/2012
Vacant	Director	-

Political Scenarios

NATIONAL CINEMA AGENCY – ANCINE (MP Nº. 2.228/01)		
Name	Position	End of Mandate
Manoel Rangel Neto	Director-President	05/20/2013
Glauber Piva	Director	05/22/2013
Mario Diamante	Director	08/06/2011
Vacant	Director	-

NATIONAL WATER AGENCY (LAW # 9.984/00)		
Name	Position	End of Mandate
Vicente Andreu Guillo	Director-President	01/14/2014
Paulo Rodrigues Vieira	Director	05/05/2014
João Gilberto Lotufo Conejo	Director	01/14/2014
Dalvino Troccoli Franca	Director	09/02/2013
Paulo Lopes Varella Neto	Director	03/15/2013

Political Scenarios

MARCH AGENDA

DATE	EVENT
-	The CNT/Sensus and CNI/Ibope government assessment and President Dilma Rousseff's popularity surveys are scheduled to be published.
-	The Ministry of Development, Industry and Foreign Trade will discuss the Productive Development Policy with the business community.
-	The Supreme Federal Court may rule on the constitutionality of the norm that allows the Executive Branch to define the value of the minimum wage by decree up to 2015, according to the law approved by Congress.
08	Carnival.
14 a 18	12 th International Agribusiness Fair in Rio Grande do Sul.
15	DEM Convention to elect the party's national board.
15	The Senate Political Reform Special Committee will debate the new rules for senatorial substitution and the change of date for taking of office by the President, governors and mayors.
17	The Senate Political Reform Special Committee will debate optional vote, reelection and duration of mandates.
19	US President Barack Obama will meet with President Dilma Rousseff, in Brasília.
19	End of Solange Paiva's mandate at the National Civil Aviation Agency (Anac).
20	New Union budget programming report may be published.
22	The Senate Political Reform Special Committee will debate electoral systems and end of coalitions in proportional elections.
23	IBGE will publish the March IPCA-15.
24	Arko Advice will hold the first edition of the Brasília Public Policies Forum, with the participation of Executive Branch and Legislative Branch authorities, besides the company's main analysts.
24	The Senate Political Reform Special Committee will debate public campaign financing, performance clause and independent candidacies.
24	The National Union of Students will hold a manifestation in Brasília against the R\$ 3 billion in cutbacks in the Ministry of Education's budget.
24	IBGE will publish of the unemployment figures for February.
25	The Central Bank will publish the Direct Foreign Investment figures for February.
26	President Dilma Rousseff will make an official visit to Paraguay, and will celebrate Mercosul's 20 th anniversary.
28	The National Electric Power Agency (Aneel) will conclude Public Hearing # 068/2008, addressing the gathering of subsidies and information for the proposition to regulate electric power transmission concession contract tariffs revision process authorized to via bidding, via auction.
29	The Senate Political Reform Special Committee will debate party loyalty, affiliation and electoral domicile.
31	The Central Bank will publish the consolidated public sector results for February.
31	The Senate Political Reform Special Committee will hold its first session to discuss the final report.