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FEATURED Q&A

Will Brazil's Labor Reforms Bring the Promised Results?

Brazil's economy could generate around 2 million jobs over two years under new forms of contracts created by proposed labor reforms, Labor Minister Ronaldo Nogueira said last week. // File Photo: Brazilian Government.

Q **Brazil's Senate on July 11 approved labor reform legislation, sending the measure to President Michel Temer, who pushed the reform. Supporters of the reform have argued that it is necessary in order to boost economic growth, but opponents, including labor unions, have said that the changes will trample workers' rights. How will the labor reform affect Brazil's economy and workers, and which sectors will be most affected? Will the changes encourage more businesses to invest in Brazil? How will implementation of the labor reform likely play out, and will any upcoming political shifts in power lead to a repeal of the legislation?**

A **Renato Canizares and Cassia Pizzotti, partners at Demarest Advogados:** "The labor reform has been discussed for a long time in Brazil, and despite the talk from government opponents that it will trample workers' rights, it is clear to legal practitioners that it grants more legal safety and flexibility for entrepreneurs and companies that want to do business in Brazil. The main impact of the reform is from the articles that set out that Collective Bargaining Agreements (negotiated between company's association and workers' union) and Collective Agreements (negotiated by the company directly with the workers' union) will prevail over the law, except for specific matters provided by the reform, such as minimum wage, weekly paid rest, overtime compensation and health and safety, among others. In fact, the effectiveness of collective agreements was already recognized by the Brazilian Federal Constitution of 1988, but until now, Brazilian courts only

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TODAY'S NEWS

BUSINESS

Coca-Cola Femsa Losing Brazil Distribution Deal

Coca-Cola Femsa said it is expecting to lose a distribution contract in Brazil. The company's shares fell more than 5 percent on the news, even though Coca-Cola Femsa reported an 11.5 percent increase in quarterly profit.

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POLITICAL

Thirteen Inmates Escape From Guyanese Prison

The inmates dug a tunnel under a wall to escape Lusignan Prison. The escapees had been transferred there from another prison that burned down after inmates had set fire to it.

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POLITICAL

Colombia's FARC to Launch Political Party Sept. 1

As part of its peace deal with the government of Colombian President Juan Manuel Santos, the FARC will get 10 unelected seats in Congress through 2026.

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Santos // File Photo: Colombian Government.

POLITICAL NEWS

Colombia's FARC to Launch Political Party on Sept. 1

The Revolutionary Armed Forces of Colombia, or FARC, rebel group announced Monday that it will form its new political party on Sept. 1, Reuters reported. The new political party is part of the peace deal that the FARC signed with Colombia's government last November and will include former guerrilla fighters serving in Colombia's Congress. "From Sept. 1 we will be publicly launching our new political movement," said Carlos Antonio Lozada, a member of the FARC secretariat, the wire service reported. The new party's launch will be marked by an event in Bogotá's Bolívar Plaza, outside Congress. The FARC's peace agreement with Colombia's government, reached after more than four years of talks in Cuba, allows the FARC 10 unelected seats in Congress through 2026 and also provides amnesty to most of the former guerrillas. Some rebels will be tried in special courts, and rebels convicted of human rights violations will be able to perform reparations, such as removing land mines, instead of being sent to prison. Lozada said the new political party, whose name was not announced, will meet to solidify its policy proposals before the Sept. 1 launch. The FARC has not yet announced which of its members will occupy the 10 congressional seats. Last month, the FARC concluded their disarmament, handing over to the United Nations all but a few of their weapons. [Editor's note: See **Q&A** on Colombia's progress in implementing the peace accord in the May 18 issue of the Advisor.]

ECONOMIC NEWS

Brazil to Boost Mining Royalties

Brazil's government plans to boost mining royalties and also establish a new regulator

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recognized the effectiveness of provisions that are better than those provided by law or that grant any benefit to offset possible losses for the employees. Now, the expectation is to have more flexibility for companies to negotiate work conditions that reflect their reality and meet company and employee needs, without the risk of having them considered null in court. Another relevant subject comprises outsourcing. Until 2017, there was no specific law ruling on outsourcing in Brazil, and the subject was ruled by courts' decisions, which forbid the outsourcing of a company's core business. Now, outsourcing will become fully possible in any activity of the company, provided that these workers are not treated as employees. As the labor reform has federal scope, all sectors will be affected by the changes, but the service and construction sectors will tend to feel the impact more than others, due to the provisions that allow outsourcing, hiring employees by the hour and working schedule flexibility. The Labor Law Review text will only come into force on Nov. 11, and there are already discussions in the Congress about possible amendments to specific points of the reform, so the recommendation for companies now is to be cautious, and wait for the possible political movements until November."

A **Brian Finnegan, global worker rights coordinator at the AFL-CIO:** "This month's changes to Brazil's labor law—like the law passed in March legalizing the outsourcing of all jobs—are designed mainly to reduce costs for employers and to make workers pay the price. These drastic and rushed changes are being made in the context of an economic and political crisis, but their effects, if left in place, will permanently and systematically weaken mechanisms to

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NEWS BRIEFS

Thirteen Inmates Escape From Guyanese Prison

Authorities in Guyana are on the hunt for 13 inmates who escaped prison by digging a tunnel disguised as a latrine under a high wall at a minimum-security prison on the east coast of the country, the Voice of America reported Monday. The manhunt comes just weeks after another jailbreak in Guyana. A senior police official said the 13 men who escaped the Lusignan Prison on Monday were "real bad ones" who had been transferred to the facility from a maximum-security prison that had burned down after inmates set fire to the prison in protest of the conditions at the facility.

A Dozen Injured in Riot at Guatemala Youth Detention Facility

Guatemalan authorities said a dozen people were injured in a riot at a youth detention center on Monday after inmates tried to escape, the Associated Press reported. Minors are being treated for tear gas inhalation and cuts and scrapes from climbing neighboring buildings, according to volunteer firefighter spokesman Óscar Franco. Another riot at the same facility on July 3 left three detainees dead.

Sweetwell Plans New Push Into Mexico Health Foods

Sweetwell, a Belgian company producing sugar- and gluten-free confections, plans to open a production facility in Mexico in 2019 in a bid to grow sales between 30 and 50 percent there, Expansion reported Monday. The category of health foods that are free of sugar and gluten had a value of $12 million at the end of 2016 in Mexico, according to Sweetwell. The company's goal for its first year operating there is to close with 5 percent market share, an executive told the newspaper. Since 2011, Sweetwell has opened three plants in Costa Rica.

for the industry in an effort to revitalize the sector, Reuters reported Monday, citing three sources familiar with the matter. The changes will increase the stake that foreign companies can have in mining projects in Brazil, according to one of the sources. That limit is currently 40 percent. The royalty increases would go into effect through a temporary decree that would later need lawmakers' approval, the wire service reported.

BUSINESS NEWS

Coca-Cola Femsa Losing Brazil Distribution Contract

Mexico-based Coca-Cola Femsa, the world's largest Coke bottler, said Monday it is likely to lose a distribution contract in Brazil, Reuters reported. The announcement pushed shares down 5.25 percent, though the company reported an 11.5 percent increase in its quarterly net profit. Dutch beer brewer Heineken, which holds a stake in Femsa, its parent company, told Coca-Cola Femsa that it would end its distribution in Brazil of its products with bottlers that were part of the Coca-Cola system. It is not clear, however, when the distribution contract will officially end, said Hector Trevino, the chief financial officer at Coca-Cola Femsa. "We firmly believe that the contract terminates in 2022," he said. However, Heineken maintains that the contract can be terminated with six months' notice. Earlier this year, Heineken acquired the Brazilian breweries of Japan's Kirin Holdings. Heineken will use Kirin Brazil's distribution routes to distribute the Dutch brewer's products in the region going forward, Heineken spokesman John-Paul Schuirink said in a statement. "As Heineken, Femsa and the Brazilian Coca-Cola bottlers are still in discussions we are not commenting in more detail," he said. Despite the loss of the contract, Coke Femsa said it has confidence in its prospects in the Brazil market as inflation increases. The company saw its sales volumes increase last month after almost a year of monthly decreases, Trevino said.

EARNINGS RESULTS

Halliburton Latin America Results Rise 10 Percent

Houston-based oil industry services firm Halliburton saw its revenues jump nearly 30 percent from a year ago as it reported Monday a small overall profit for the second quarter, the Houston Chronicle reported. International revenue in the second quarter of 2017 was $2.2 billion, a 7 percent increase sequentially, resulting primarily from higher drilling activity in Latin America, increased well completion and drilling services in Europe/Africa/CIS, and increased fluid activity in the Eastern Hemisphere. Latin America revenue in the second quarter of 2017 was $508 million, a 10 percent increase sequentially, driven by increased drilling activity in Mexico, Venezuela and Colombia, as well as higher stimulation activity in Argentina. Adjusted income from continuing operations for the second quarter of 2017, excluding a fair market value adjustment associated with an expected promissory note in Venezuela, was $201 million.

Brazil Recession a Blow to Panama's Bladex

Banco Latinoamericano de Comercio Exterior, or Bladex as the Panama-based lender is known, on Friday reported weaker second-quarter results than the market expected, The Motley Fool reported. Bladex's revenue dropped by more than 22 percent to $34.4 million, lower than the 14 percent drop that analysts were expecting. Net income fell by more than a fifth. Several key metrics for the bank worsened from year-ago levels, as the bank's efficiency ratio declined to 37 percent with operating expenses soaring by 25 percent from year-ago levels. Total assets fell to $6.42 billion, lower by $645 million over the past three months. "The positive growth momentum in Brazil seen earlier in the year experienced a significant setback in the wake of political developments in that country," Rubens V. Amaral Jr., Bladex's chief executive officer, said in a statement. "There are faint signals of an economic recovery but they are probably not strong enough to help us overcome the economy's significant challenges," he added.

Latin America Growth Lags for Hasbro

Toy and games maker Hasbro announced Monday that revenue growth in Latin America during the second quarter lagged behind other parts of the world in which it operates. On a regional basis, Asia Pacific revenues increased 18 percent, while Europe increased 4 percent and Latin America increased only 3 percent. Emerging markets revenues increased 7 percent overall in the quarter. Meanwhile, international segment operating profit decreased 43 percent to $16.9 million, as compared to $29.7 million in 2016.

Citi Sees Stronger Latin America Banking Results

Citigroup said its revenue grew 3 percent in the first half of 2017, topping Wall Street's expectations as its trading desk saw a smaller-than-anticipated drop-off in activity, MarketWatch reported July 14. In Citi's international consumer banking segment, Latin America revenues of $1.29 billion were up 8 percent, year-over-year, driven by 12 percent growth in retail banking, reflecting continued growth in average loans and deposits, as well as improved deposit spreads, which were partially offset by lower cards revenues, the company said. Expenses in Latin America grew more slowly in the second quarter, at 4 percent, rising to $735 million.

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balance the always unequal power relations at work and place a thumb on the scale in favor of employers. It's not possible here to explain in any serious way the contents of the legislation. A few details make clear the main objective: they open the door for longer hours, more precarious work, more uncertainty about the employment relationship, and less access to legal remedies—providing even that workers who lose their case pay the legal costs of employers. While Brazil has long had a system of collective bargaining that privileged bargaining at the sectoral level, the changes encourage a reduction to company-level bargaining. In several ways, the changes explicitly reduce the role of unions and fragment workers' collective efforts to reduce informality and broader social inequality. It didn't have to be this way. Many of Brazil's unions have long proposed changes to the labor law and laws

> **It didn't have to be this way."**
> **— Brian Finnegan**

governing unions themselves. Even in the last couple years of crisis and distrust, there was dialogue and concrete proposals for reforms that could have been very different to strengthen bargaining, resolutions of conflicts at the workplace level and more representative, democratic unions. Unfortunately, as with the outsourcing law, extreme austerity measures for health and education programs, and weakening environmental controls, Brazil's unelected president and a Congress dominated by politicians under a cloud of corruption have taken measures that correspond almost entirely to the interests of Brazil's wealthier citizens and the interests of national and international employers and investors at the expense of the majority and especially the most excluded and impoverished."

A **Juliano Griebeler, director of government affairs at Barral M Jorge Consultores Associados:** "The labor reform modernizes labor rules in Brazil that were not compatible with the modern work relationship, and that reduced Brazil's competitiveness. It gives to the companies more options when hiring, allowing flexible contracts and cost reduction. On the workers' side, the reform gives to strong labor unions greater autonomy in negotiating their rights. However, workers who do not have an organized union to represent them will be more susceptible to the employer's interests during the negotiations. The labor reform reduces the 'Brazil Cost'—Brazilian singularities that increase the cost associated with doing business in the country. The changes will give more control to companies over their business, reducing the economic impacts from events out of the companies control. With greater control over its expenses and hiring, companies will adapt faster to unexpected situations. Political shifts will not affect the approved labor law, especially if the current administration is replaced by a member of its own coalition. Even the opposition will not change issues that the current administration already paid a high political cost to implement; at most, if an opposition party is able to become the ruling coalition, we might see some changes in the outsourcing law. It is important to note that the enactment of the labor law is not the end of the discussion. Temer is expected to edit a provisional measure, softening some points seen as negative in the text approved, as agreed with Senators. Trying to demonstrate strength by approving the labor reform in a fast process, Temer extended discussions and created uncertainties on the matter. Opposition parties will surely try to change aspects of the rules approved when they are once again discussed in Congress."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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