Paulo Nogueira Batista Jr., IMF Executive Director:

The euro was an initiative of European elites

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As the International Monetary Fund Executive Director for Brazil and other Latin American and Caribbean countries, Paulo Nogueira Batista Jr., has had a privileged view of efforts to mitigate a continuing global crisis whose consequences are still unpredictable. In an interview with Claudio Accioli, he gives his personal opinion on risks to the survival of the euro and the decision of Brazil’s central bank to start cutting the benchmark interest rate.

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26 Untapped wealth
Because it is a relatively new way to classify economic activities that have a cultural or intellectual property element, and it covers such varied activities as game development and regional handicrafts, the potential of the creative economy in Brazil has not yet been prioritized by either the market or the government, so public policies for its development are lacking. Experts at the First International Conference on the Creative Economy, organized by Conjuntura Econômica and The Brazilian Economy magazines, look at all the ramifications. Claudio Accioli, Solange Monteiro, and Thais Thimoteo report.
POLITICS

A fifth minister resigns
Tourism Minister Pedro Novais has resigned over allegations that he misused public funds. He is the 5th minister to leave the Rousseff administration. The president named Congressman Gastão Vieira of the government-allied Democratic Movement Party (PMDB) as his successor. (September 15)

Former President Lula negotiates 2012 PT alliances
President Rousseff is staying away from the quarrelling about the 2012 municipal elections among the 17 parties that support her administration. She has called upon former President Luiz Inacio Lula da Silva to act as in effect an “extraordinary minister for electoral matters.” Lula has already met with Workers’ Party (PT) leaders in Belo Horizonte, Salvador, Rio, Recife, and Goiania states. (September 15)

PSDB internal disagreements continue
Senator Aloysio Nunes Ferreira has criticized the São Paulo state PSDB party leadership for excluding him and former São Paulo Governor José Serra from party electoral ads. Two groups within the PSDB are clashing. One is led by Serra, the other by Senator Aecio Neves, Governor Geraldo Alckmin, and PSDB President Sergio Guerra. The internal fight within the main opposition party centers on the 2012 municipal elections and the presidential election in 2014. (September 30)

ECONOMY

Tax receipts slow in August
Federal taxes totaled R$74.6 billion in August, 8% more than in August 2010, adjusted for inflation, but 18% percent less than in July 2011. The fall in corporate income tax by 13% in August may reflect a slowing of economic activity. (September 20)

Industrial confidence is also lower
For the ninth consecutive month, the Industry Confidence Index has declined, according to the Getulio Vargas Foundation. The index fell 1.6% in September after falling 2.2% in August. The recent decline was mainly influenced by a worsening outlook for companies. (September 30)

Sharp real depreciation in September
The Brazilian real depreciated against the U.S. dollar by 18% in September and closed the month at R$1.8544 per dollar, the fifth highest monthly value since June 1994. (October 3)

Brazilian productivity behind the world average
Brazilian worker productivity is not only below the world average but has grown much more slowly than productivity in other emerging countries. In 2010 a Brazilian produced on average one fifth of the wealth generated by an American, a third of a South Korean, and about half of an Argentinian, according to the U.S. Conference Board. From 2005 to 2010, Brazil’s productivity grew an average of 2.1% per year, compared to 9.8% in China, 5.8% in India, and 3.2% in Russia. http://www.conference-board.org/data/economydatabase/ (October 3)

Trade surplus surges in September
Brazil posted a trade surplus of US$3 billion in September, up from US$1.1 billion year-on-year, according to the Ministry of Trade. The surge beat market expectations as exports held firm despite worries over a global recession. The main reason was better export prices, principally for commodities, which have been supported by robust growth in commodity-hungry China. (October 3)

Industrial production down
After increasing 0.3% in July, industrial production fell 0.2% in August, according to the IBGE (Brazilian Institute of Geography and Statistics). Industry contracted by 0.4% in the three months ended in August, a sign that production is accommodating to a slowing economy. (October 4)

Unexpected drop in retail sales
Retail sales fell more than expected in August from the previous month, signaling ebbing consumer demand. Volumes fell 0.4% in August from July, according to IBGE. July’s retail sales were also revised downward, to a 1.2% increase over the preceding month. Demand-side indicators such as credit have lagged supply data like industrial output, which has stagnated this year. (October 11)

Inflation accelerates
Consumer inflation grew 0.53% month-to-month on housing costs, driving 12-month inflation to 7.31%, above the central bank target ceiling of 6.5%. Nevertheless, markets still expect monetary policy to ease, a view supported by Central Bank Governor Tombini, who recently said that moderate rate cuts could help shield the economy from the European debt crisis. (October 7)
President Rousseff promotes change at the UN
During the opening of the 66th General Assembly of the United Nations (UN), President Rousseff spoke up for a union of countries to face up to the global economic crisis, the reform of the Security Council (with a permanent seat for Brazil), and creation of a Palestinian state. On the last, once again Brazilian foreign policy clashes with that of the United States. Rousseff especially emphasized that “The world needs a Security Council that reflects present-day reality; a Security Council that includes new permanent and non-permanent members, in particular representatives of the emerging countries.” (September 21)

ECONOMIC POLICY

Brazil raises taxes on imported cars
Following a surge in shipments from China and elsewhere fueled by a rally in the real, to protect jobs, Brazil has raised the excise tax (IPI) on cars with a high content of imported components. The government announced an increase in the IPI, which had been 7% to 25%, depending on the model and power of the car, to 37% to 55%. Those mainly affected should be Chinese, Korean, and luxury cars, which have gained market share in Brazil. (September 15)

Central Bank forecasts less growth and more inflation for 2011
In its Inflation Report for the third quarter, the Central Bank reduced its projection for 2011 GDP growth from 4% to 3.5% because the external outlook is deteriorating, and increased its inflation projection from 5.8% to 6.4%. For 2012 the inflation forecast was revised from 4.8% to 4.7%. (September 29)

Rousseff pushes more rate cuts
Brazil can’t let pass the opportunity afforded by the global financial crisis to lower interest rates, President Dilma Rousseff said today in her strongest call yet for the Central Bank to continue cutting borrowing costs. The Monetary Policy Committee cut the benchmark interest rate by a half-point, to 12 percent, on August 31 even as inflation climbed to a six-year high, citing a “substantial deterioration” in the global economy. However, that cut prompted speculation that Central Bank President Alexandre Tombini had give in to political pressure. (October 2)
In addition to producing and disseminating the main financial and economic indicators of Brazil, IBRE (Brazilian Institute of Economics) of Getulio Vargas Foundation provides access to its extensive databases through user licenses and consulting services according to the needs of your business.

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The draft National Solid Waste Policy (PNRS) exemplifies the difficulty Brazil has in getting anything done. First, there’s the talk, talk, talk problem: Successive Congresses had been discussing this for 21 years before it was presented late in 2010 and published this year for actual public discussion. Then there’s the problem of counter-productive taxation; for instance, when waste is transported from one state to another for recycling state value-added tax is charged. And the problem of conflicting state rules for dumpsites and landfills. And the informal employment of up to a million collectors. And unfunded mandates like the requirements that cities close dumpsites and carry out selective collection, which most municipalities simply cannot afford. And the fact that the new policy will hit consumers’ wallets hard.

Obviously, waste has to be disposed of, and Brazil hasn’t been doing a very good job. Data from the Brazilian Association of Waste (Abetre) show that in 2010, only 4% of 61 million metric tons of solid waste was recycled — so last year alone almost 59 million tons piled up across the country, on top of what was dumped in previous years.

And we’re literally throwing money away. Victor Bicca, president of Business Committed to Recycling (Cempre), thinks that just by recycling plastic containers, aluminum, and cardboard, Brazil could have economic gains of R$8 billion a year, and today we recycle less than R$3 billion.

The PNRS also overregulates recycling activities, increasing their cost. One of the biggest problems with the PNRS is “reverse logistics” — the requirement that waste materials be returned to those who generated the products so they can be reused or turned into other products. That means it’s impossible for companies making different products to share responsibilities in ways that would reduce costs. A supermarket chain may deal with 50,000 different products, made by different companies but often resulting in similar waste products that could be more efficiently handled in a decentralized way. The reverse logistics costs will be huge — and they’ll have to be passed on to consumers, who are hard-pressed to keep up with inflation as it is.

Some industries are already leading the way. The lubricating oil industry Play Clean program is very efficient: gas stations collect the packaging, which is sent to be pressed, baled, and forwarded to plants that recycle polyethylene. Last year Sindicom, the National Union of Fuel and Lubricant Distributors, collected 23 million packages; it expects to collect 40 million this year; and by 2015, it expects to be recycling 60% of the packaging used by its members.

Our cover article not only sets out the problems the PNRS could cause; it also offers plenty of suggestions for how at least some of them might be solved. But first everybody — Congress, the administration, states, municipalities, producers, consumers — has to admit honestly that there are problems to carrying out the PNRS as it is, and everybody has to be willing to share responsibility for helping to solve them. Second, the PNRS should rely less on compulsory and arbitrary regulation and better align economic incentives so that states, municipalities, producers, consumers can figure out how best to reduce waste and recycle materials.

Let’s talk trash
The economic team’s credibility gap

Rousseff’s economic team lacks the balance and credibility of previous administrations. As domestic economic indicators falter and with political uncertainties, this may well undermine the effectiveness of the administration’s policies.

João Augusto de Castro Neves, Washington D.C.

As asked how the global financial meltdown of 2008–2009 would impact the Brazilian economy, former president Lula compared the negative externalities to small ripples that would wash ashore safely. At the time that actually seemed to be the case, and Brazil rebounded from the crisis easily. But now, amid faltering domestic economic indicators and political uncertainties, the persistent turbulence of global markets is calling into question the resilience of the Brazilian economy.

As risky as they may seem, inflationary pressures, extreme fluctuations of the currency, and pressure from congressional allies to increase spending are recurrent features in Brazil’s public policy landscape. For nearly 10 years, the federal government has responded unwaveringly to these challenges with a combination of fiscal responsibility, monetary tightening … and a significant dose of political maneuvering. Regardless of the changes they faced in the international environment, the Cardoso administration (1995–2002) and the Lula administration (2003–2010) followed roughly the same recipe for sound economic policies.

Although it is still early to tell whether the Rousseff administration will deal similarly with the economy, clouds of uncertainty are massing on the horizon. The most recent cause for concern was the Central Bank’s decision to lower interest rates. Since inflation is expected to exceed the ceiling for this year’s target range — and probably for 2012 as well — many political and economic observers considered the decision to be a conscious attempt by the administration to reach a new economic policy mix, one that gives priority to economic growth over inflation. This perception was enhanced by the fact that the monetary loosening was accompanied by only a very limited promise of government fiscal restraint in the near future.

Beyond faltering economic indicators and the policy choices, the cast of characters in President Rousseff’s economic team is another source of uncertainty. So far, the apparent shift in the economic policy mix has been interpreted as an indication of undue

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political influence over monetary decision-making. Although Brazil’s Central Bank has enjoyed a reasonable degree of autonomy for the past decade or so, this independence is not written in stone. The Central Bank is not legally independent; it can only operate with autonomy if it has conscious political support from the president.

To demonstrate the federal government’s commitment to economic stability, Cardoso and Lula adopted similar political strategies. Despite considerable pressure for more economic growth coming from political circles and the industrial sector, the two attempted to shield the monetary authorities from political influence. Though he had to find room in his cabinet for more expansionist groups and ideas (creating, for example, the Ministry of Industrial Development),

Beyond faltering economic indicators and the policy choices, the cast of characters in President Rousseff’s economic team is another source of uncertainty.
Cardoso was always careful to show political support for unpopular measures taken by his finance minister and Central Bank governors. Similarly, Lula sought to counterbalance his lack of responsible economic credentials by anointing as the government’s main economic interlocutors Antonio Palocci as Minister of Finance and later Henrique Meirelles, a former private banker, as Central Bank governor. Having the right amount of political savvy, the Palocci-Meirelles team became the anchor of economic stability for Brazil.

Even though President Rousseff inherited the economic policy framework and the political blueprint of her two predecessors, her economic team seems at this point to be projecting less credibility. Certainly some responsibility for this lies in a more murky and therefore challenging international economic environment. A lagging U.S. economy and the specter of sovereign debt defaults and banking crises haunting Europe, for example, highlight the ineffectiveness of the policy tools the main economies have been using. The lack of global economic coordination seems to be causing negative externalities (such as a currency war) for an emerging country like Brazil, which has limited resources to respond.

But another source of uncertainty seems to be rooted within the Rousseff administration. When picking economic advisors, President Rousseff decided to keep from the Lula administration players who were notorious for more state-centric approaches, such as Guido Mantega at the Ministry of Finance. It is true that for the Central Bank she opted for Alexandre Tombini, who has recognized technical expertise, but he has much less political viability as a credible counterweight to Mantega.

The president could quite easily compensate for this handicap by a show of direct political support for the Central Bank. Rousseff’s low-profile style of governing, however, has prevented this.

Without interlocutors who combine political girth with discernable market-friendly credentials, Rousseff’s economic team lacks the political savvy and technical balance shown in previous administrations. In a domestic environment where politics has significant impact on economic policy decision-making, this situation will most likely trigger even more speculation … and instability.
São Paulo reinvents itself every day. New people, different cultures, an increasing number of places to visit. A city that tells its story on the streets, in the buildings and in the parks, such as the recently-renewed Guarapiranga lake. Visiting São Paulo allows you to immerse yourself in the stories of its restaurants, museums, such as Brazil’s unique Soccer museum, and its theaters, such as the Theatro Municipal, which is now even more modern and exciting. São Paulo welcomes all those who are willing to dive into this sea of attractions that suit all tastes and budgets. São Paulo is culture, entertainment, art and creativity. São Paulo. A creative city.
Recycling: Who pays for it?

The National Solid Waste Policy seeks to integrate government, business, and civil society but revisions are needed if the effort is not to be wasted.

Claudio Accioli, Solange Monteiro, and Kalinka Iaquinto, Rio de Janeiro
In 2010 Brazilians threw away 61 million tons of municipal solid waste, about half of which was not properly disposed of, according to the Brazilian Association of Public Hygiene and Special Waste (Abrelpe). To keep growth sustainable, Brazil should minimize both industrial and household waste, extend product life cycles, and commit to reusing or recycling products.

The National Solid Waste Policy (PNRS) sets out principles, guidelines, goals, and actions to those ends. Presented in late 2010 after 21 years of congressional discussions, the draft PNRS aims to promote cooperation between government, civil society and manufacturers, importers, distributors, retailers, consumers, and public waste collectors in finding ways to correctly dispose of organic waste and to recycle all waste, whether food or the rubble of a building. The emphasis is on shared responsibility. The draft was circulated this September and public consultation, and heated debate, is expected to last until December.

**EACH SECTOR A CHALLENGE**

A fundamental, and highly controversial, aspect of the law is “reverse logistics,” which requires that waste materials be returned to waste generators to be treated or reused in new products. It will be mandatory for many industries. By year-end the sectors that are supposed to suggest options for recycling in their activities are packaging in general; electronics; fluorescent, sodium vapor, and mercury lighting; drugs; and packaging for oils and lubricants. The law covers pesticides, tires, and batteries, but these are already subject to specific regulations. When a sector cannot reach a consensus, the federal government can do so by decree. “Because immediate deadlines would be arbitrary and difficult to comply with, economic and financial feasibility studies are being conducted to establish benchmarks,” says Nabil Georges Bonduki, Ministry of Environment (MMA) Secretary of Water Resources and the Urban Environment.

So far progress in recycling has been made in a few segments where the economic viability was evident. For aluminum cans (see box), for instance, the recycling rate is already approaching 100%. Without any support or training, collectors have recognized cans as a source of income and strive to get them quickly back to their point of origin.
A CNM survey found that only 37% of Brazilian cities have landfills, most relying on dumpsites.

In sectors like electronics, the situation is not so simple. The sheer variety of products, from refrigerators to mobile phones, adds huge complexity.

Emilio Loures, manager of technology programs of Brazil’s Intel, cites the Brazilian market for PCs — 14 million units in 2010. “In a computer, there are valuable components like platinum, gold, silver, but you need to know how to handle them appropriately,” he says, adding that in Southeast Asia, some people burned computer cards to extract gold, causing pollution, and “we do not want that to happen here.” And the used materials themselves are not the only problem, he explains: “The tax treatment for recycled products is not harmonized; this type of waste transported from one state to another pays state value-added tax … if there were more incentive, local industry would be very interested in taking back all the machines on the market.”

Other sectors are negotiating progressive recycling goals and incentives, though so far, “It’s a trend mainly driven by large companies, which have both an image to preserve and a need for more sustainable production to continue growing,” says Ricardo Rose, director of the Brazil-Germany Chamber of Commerce Department of Renewable Energy, Sustainability and Energy Efficiency. This can be a force for progress. “Take supermarkets,” Rose points out. “On one hand they force suppliers to adopt certain standards and on the other they raise consumer awareness regarding disposal of waste.”

According to Ligia Korkes, manager of sustainability, Pão de Açúcar group, the biggest challenge of the new PNRS will be formation of intersectoral alliances. “For example, the recycling stations we have allow us to share responsibilities with companies that are our partners and thereby reduce costs, but in reverse logistics it is not possible to share this type of activity,” she says. “For instance, just one of the group’s companies, Extra supermarkets, works with 50,000 different products. It is almost impossible to deal with this universe without the help of other players, including consumers.”

**PUBLIC SECTOR SUPPORT**

Especially for sectors in which the return of used waste is more complex, “It is essential that there be partnerships between producers and local governments,” says Lucien Belmonte, superintendent of the Technical Association of Brazilian Glass (Abividro). By law, municipalities must clean up trash. The PNRS mandates that by 2014 all cities will have to close open dumpsites, carry out selective collection, and properly dispose of organic waste.
in landfills. Unfortunately, many municipalities simply do not have the financial resources to comply.

“At the moment replacing open dumps by landfills is unrealistic. The Ministry [of Environment] has complicated the life of mayors,” says Paulo Ziulkoski, president of the National Confederation of Municipalities (CNM). To comply, the municipalities would have to spend about R$52 billion (US$28 billion) in less than three years. Research by FGV Projects for the Brazilian Association of Waste (Abetre) found that the lifecycle costs of a large landfill, capable of receiving 2,000 tons of garbage a day, is about R$525 million, an annual cost of R$14 to R$18 per capita. The estimate covers everything from studies to installation to post-closure activities for a landfill with a life of 20 years. “We do not have the technical or financial resources for this,” Ziulkoski says.

Diadema city in São Paulo state has about 400,000 inhabitants and for more than 10 years has been disposing of waste in a landfill. In its Clean Life program, the city has also hired scavengers who used to work in the Alvarenga dump site (closed in 2001) and separately collect about 150 metric ton a month. “Today, we pay R$2 million a month to collect waste; waste management has high maintenance and operation costs,” says Mayor Mário Reali (Workers Party-PT).

But municipalities that have addressed the problem of waste disposal are
In 2010, Brazilians threw away 61 million tons of municipal solid waste, about half of which is not properly disposed of.

the exception. In 2010, according to Abrelpe, 58% of the 5,565 municipalities reported some initiative for waste management, but a CNM survey found that only 37% of Brazilian cities have landfills, most rely on dumpsites, and only 20% do composting, which turns organic waste into fertilizers. “Selective collection costs 70% more than normal, and composting also has a very high cost. The government demands that we must do it but does not indicate with what resources. This is irresponsible,” Ziulkoski says.

Felipe Zakari Antunes, manager of sustainability for Wal-Mart, stresses the need to reconcile eradication of the dumpsites, which has set deadlines, with processes for selective collection: “Recycling stations in retail stores cannot be the only solution to ensure that packaging is recycled, for example. We need a selective collection program with municipal support to increase the volume of material collected and raise public awareness.”

To make the necessary changes, especially in smaller municipalities, there are two possible options. The first is private waste management. “The private sector has technical and human resources and can offer solutions at reasonable costs,” says Diógenes Del Bel, Abetre chief executive. Second, the PNRS suggests creation of consortia of municipalities that could share costs and receive resources from the federal government. For Ziulkoski, however, there is no guarantee that there will be money to maintain these consortia.

Carlos Roberto Vieira da Silva Filho, Abrelpe executive director, believes that dumpsites can be closed within the deadline if “we quit talking and begin doing.” Cacilda Teixeira de Carvalho, president of the Brazilian Association of Sanitary and Environmental Engineering (ABES), points out the need to educate people for selective collection. “Establishing landfills will depend on institutional and technical support, and equipment, making room for new technologies. But this is all meaningless without informed people, “she says. Adalgiso Teles, Bunge Brazil director of corporate affairs and sustainability, agrees, emphasizing that “The biggest challenge is to promote consumer awareness.”

Abividro’s Belmonte says consumers do not realize the changes the new policy will make in their lives, pointing out, “This is a program with huge players who depend on the consumer, and consumers have not been educated about their role.” Alísio Jacques Mendes Vaz, executive chairman of the National Union of Distributors Fuel and
Lubricants (Sindicom), thinks there is a risk that the effects of the new policy on consumers will first show up on their pockets: “The entire chain of production and distribution will bear the recycling costs, and it is important that consumers know that they will paying more for it. [Recycling] is a society demand but its costs must be recognized.”

MUCH TO GAIN
Despite the doubts, Rose of the Brazil-Germany Chamber of Commerce believes the PNRS is necessary, but says one of the biggest obstacles to the new policy is the lack of research: “We accept the fallacious argument that to adapt to a sustainable process is more expensive; that is not so. Streamlining processes tends to make costs drop.”

Some argue that achieving the PNRS targets depends on both reducing recycling costs and expanding the recycler sector. “Today, making a recycled product is more expensive than using raw material. Having more recycling parks is important because we are very focused on selective collection,” says Victor Bicca, president of Business Committed to Recycling (Cempre).

Nelson Pereira dos Reis, director of the Department of Environment, Federation of Industries of São Paulo State (FIESP), underlines the need for a tax review, particularly in certain segments: “One example is paint sludge. The tax burden on this material prevents its recycling because the difference in VAT between buying and selling the sludge generates a credit that the recycler cannot use.”

To Wanderley Baptista, policy and industry analyst, National Confederation of Industry (CNI), economic support for PNRS-related activities demands more discussion of alternatives such as special VAT rates for recycled material and equal tax treatment by states.

Although Brazil stands out in recycling of some materials, it is still far short of being able to fully comply with the PNRS. Abrelpe data show that in 2010 only 4% of 61 million metric tons of solid waste was recycled. André Luís Saraiva of the Brazilian Association of Electrical and Electronics Industry (Abinee) suggests that providing adequate infrastructure for recycling his industry’s waste products could make the market for recycling more attractive.

Cempre’s Bicca points out other opportunities. “This new policy

Another good exercise is to look for sectors that have already addressed recycling. For example, the lubricating oils sector already has an agreement to collect 60% of the packages distributed to service stations and dealerships through 2015.
will allow Brazil to profit from huge economic opportunities that we have been wasting,” he says. “Just by recycling plastic containers, aluminum, and cardboard, it is estimated that Brazil could have economic gains of R$8 billion a year, and so far we do not reach even R$3 billion.”

Arguments and debates aside, the various sectors are unanimous that the PNRS must define the role of each player to ensure that economic growth is environmentally sustainable. Companies operating nationally are being pressed to comply with local legislation, as in São Paulo and Curitiba cities. “We welcome the adoption of the new National Policy of Solid Waste because we are under pressure from local governments to comply with requirements for recycling materials, [but their protocols] lack standardization and allocation of responsibilities,” says Rino Abbondi, vice president of logistics for Coca-Cola. “We hope [the PNRS] will be a national umbrella … making it possible to address [waste management] from Amazonas state to Rio Grande do Sul state with the same approach.”

Nationally, it is still difficult to ensure that decisions will occur quickly. For Abinee’s Saraiva, the ideal would be to select products from every industry and some municipalities with different specificities to pilot total recycling. He explains that “With this, we would have a map of the difficulties, material conditions, and tax document of title of ownership. From these pilots, we could assess the country’s installed recycling capacity and its specificities.”

Another good exercise is to look at sectors that have already addressed recycling. For example, the lubricating oils sector already has an agreement to collect 60% of the packages distributed to service stations and dealerships through 2015. A program Sindicom put together five years ago is the baseline for its projections. The Play Clean program began in Rio Grande do Sul state and has already reached the other two Southern states and Rio de Janeiro and São Paulo states. Gas stations collect the packaging, which is sent to receiving stations where it pressed, baled, and sent to plants that recycle polyethylene. “There they become raw material, including for new packaging,” says Mendes Vaz. “Last year, we collected 23 million packages; this year, we expect to collect 40 million.”

“We are anxious to start a more structured and formalized [recycling] process,” says FIESP’s Reis. He believes that it is most important to seek solutions that take into account local structure and educational levels and avoid any ideological bias. “We cannot expect industry to pay for everything,” he says. Sindicom’s Mendes Vaz reiterates that at present, more than setting goals the important thing is to start taking steps, recognizing that “the best can be the enemy of the good,” and keeping in mind that to even get to the good, it is necessary to keep up the pace.
Is European monetary unification sustainable?

The Brazilian Economy — At the IMF annual meeting in September Managing Director Christine Lagarde said that IMF reserves may not be sufficient to help European countries in crisis. How do you see the IMF situation?

Paulo Nogueira Batista Jr. — It is not clear whether the IMF needs more lending capacity — it depends on the international economy and member country demands. In the Joint Communique issued during the IMF annual meeting in September, the BRICS (Brazil, Russia, India, China, and South Africa) expressed cautious willingness to provide additional resources in a time of crisis when the need is demonstrated, but also expressed concern about the slow pace of reforms to redistribute decision-making power within the institution. Quota and voice reforms in 2008 benefited some emerging countries, including Brazil, and there is agreement for a further review of quotas.

* Brazil, Colombia, Ecuador, Guyana, Haiti, Panama, Dominican Republic, Suriname and Trinidad and Tobago.
by January 2014. But this issue exposes the imbalance in IMF decision-making power. The BRICS communiqué therefore reinforces the understanding that reforms must continue, so that the IMF becomes more representative of today’s world rather than a world long past in which great powers on both sides of the North Atlantic had much greater relative weight than they have today.

In an interview with The Brazilian Economy, former Minister Delfim Netto asserted that the European Economic Community was the victim of a “self-deception” in requiring that no member countries could have fiscal deficits exceeding 3% of GDP or domestic debt greater than 60% of GDP. Were the targets indeed utopian? Yes. The rigid definition of the targets primarily reflects the thinking of northern Europeans, mainly Germany. These simple rigid rules do not deal with the complexity of reality. Over the past 10 years, even before the current crisis, one of the countries that did not meet these requirements was Germany, pressed by extraordinary circumstances. So if Germany itself violated the targets, the credibility of the system was already compromised.

A key aspect of the European Union project, which has now become much more evident, was a monetary union with a common central bank but without fiscal and policy union. The Germans and other northern Europeans have tried to make up for the lack of union with strict fiscal policy rules. When times were good, the imbalance was not evident, but with the crisis it became very visible. What’s worse, the mistake of the past is repeating itself now, with increased penalties on countries that fail to meet fiscal targets, in much more difficult economic circumstances.

Some economists have argued that if the stronger countries in the euro area do not adopt expansionary fiscal and monetary policies, attempts to rescue the ailing economies will fail, producing a general recession. Do you agree? I agree in part because the question transcends Europe. In the euro area, expansionary policies were already in use in 2008. In general, after Lehman Brothers collapsed, developed countries, even with IMF support and encouragement, were led to practice countercyclical fiscal and monetary policies to avoid a great depression. It worked then because there was a coordinated effort not only from developed countries but in emerging economies like China and Brazil, which also adopted expansionary fiscal and monetary policies. However, though a major depression may have been averted, the crisis has
never been fully resolved. Now, with the resurging crisis since mid-2011, developed countries have much less fiscal and monetary ammunition than they had before … today’s fiscal deficits and public debt are much higher in almost all these economies. Monetary policy has been used extensively; basic interest rates are approaching zero in nominal terms and negative in real terms.

I agree with the thesis in that countries that still have some fiscal room, such as Germany and the United States, should adopt expansionary policies, as proposed recently by President Obama, or at least soften contractionary policy, phasing it out over time. As for monetary policy, the European Central Bank (ECB) still has a little more leeway than other central banks issuing currency with international liquidity, such as the Federal Reserve, the Bank of England, and the Bank of Japan, that were already adopting more expansionary monetary policies. But countries that are under market pressure, such as Greece, Ireland, Portugal, Italy, and Spain, have no alternative but to adopt contractionary fiscal policies, despite the risk of recession.

Will the European Financial Stabilization Fund (EFSF) suffice and will it be operational in time to address the debt crisis in the euro area? I think there is still a strong commitment of the European elites to the design of monetary unification, which is part of the euro.

One problem of the euro governance system is that many decisions require the unanimous approval of 17 member country parliaments, which makes the process very slow considering the crisis and the speed of market reaction. Since the EFSF decision was announced on July 21, for almost three months the situation has been changing daily. EFSF resources may no longer be sufficient to address the sovereign debt crisis of some countries, and that will threaten the single currency itself because it overburdens the ECB. The German Minister of Finance has stated that restructuring of Greek private debt may have to be revised because the concessions of creditors were very limited, overburdening Greece and requiring more adjustments by European governments, the ECB, and the IMF. An important issue, too, is how the EFSF will be implemented, whether there will be scope to leverage resources and increase its firepower, because it would be unthinkable to return to parliaments to ask for more resources.

What is the role of Germany in the region’s recovery?

Germany is central due to its economic and political weight. Because the country has great influence, even hegemony, in the ECB, it may favor a more flexible monetary policy. Or Germany could take advantage of its fiscal space and introduce
It is important that [Brazil’s] policy of cutting interest rates is accompanied by great fiscal discipline.

...
extraordinarily difficult but ultimately was conducted effectively. The euro case is different, however, because it is a monetary union on an unprecedented scale.

You usually place the United States at the epicenter of the crisis, along with euro-area countries. But companies and U.S. banks are well-capitalized, and despite the severe fiscal situation, U.S. Treasury bonds still appeal to investors. Is the U.S. in a more comfortable situation than Europe?

Yes, for several reasons. One is that America is a unified country, while the European Union is a collection of sovereign nations. I would say the world stage today is to some extent worse than in 2008, just because the epicenter of the crisis is more in Europe than in America. But the American situation obviously is not easy, because the economy is still more or less stagnant, unemployment is very high, and there is a very sharp political division in the country. Despite long and repeated efforts by President Obama to reach bipartisan agreement, the Republican opposition is determined not to accept it. Many in the opposition reveal an extraordinary hostility to the president, and next year’s presidential campaign has already taken to the streets, affecting economic issues. Similarly, several other major countries have elections ahead, which further reduces the scope for governments to make decisions about the crisis.

We have observed street demonstrations in Greece in protest against IMF austerity measures and the Greek government. The situation resembles what happened in Brazil and other Latin American countries in the 1980s, when the people saw IMF as the “enemy” to be fought. Three decades later, does the IMF still have an image problem?

I think so. There is resistance to IMF measures resulting from the practical consequences of Greece’s situation at this time, as there was in Brazil and other Latin American countries then, which even today remain in the collective memory of some countries. But there is one important difference. In Greece, the adjustment involves a troika: the IMF, the ECB, and European governments. In Latin America, the IMF did not have partners. Sometimes it had the U.S. government, which came in with resources, as in Mexico in 1994. So in Greece, the resistance is not only against the IMF but also against the northern Europeans, who have taken positions even more rigid than the IMF has.

The image problem is quite serious in much of Latin America and in East Asia. There is a stigma attached to resorting to the IMF. In part, it is inevitable; it
is the same stigma that attaches to a financial institution that resorts to a central bank discount window. But there has been change since 2008. Today, the IMF has flexible credit lines, without requiring conditionality, that were created in 2009 largely through Brazil’s influence. Another significant change, besides the review of quotas, is that the IMF has become much more important, having financial resources for lending that are remarkably higher since the crisis. This does not solve the image problem but increases the projection and the responsibility of an institution that was marginalized in 2007 and has now become a kind of right arm of the G-20.

How do you assess the decision of Brazil’s central bank to change direction and signal the start of a policy of cutting the benchmark interest rate? Is the inflation target threatened?

Even after the latest cut, Brazil’s basic interest rate is one of the highest among major countries. Weighing into the central bank’s decision was the deterioration of the world economy, although some commentators thought the bank was exaggerating [the deterioration]; what happened later showed that the decision was correct. I think the main concern was not to repeat what happened in 2008, when the Federal Reserve raised interest rates just before Lehman Brothers collapsed and then was slow to cut. But it is important that this policy of cutting interest rates is accompanied by great fiscal discipline. Strictly speaking, that would mean a shift to a more favorable mix of macroeconomic policies: moderate interest rates, slightly more depreciated exchange rates, and stronger fiscal policy. Is the inflation target threatened? Not necessarily. The framework operates over time and should be evaluated on the basis of the calendar year rather than continuously; that gives the central bank space to adjust its policies in light of inflation expectations. In its latest forecast, the IMF estimated Brazil’s inflation at slightly below the target ceiling in 2011 and at its center in 2012 — this is a little more favorable than the median market expectations as measured by the central bank inflation survey. The government and the central bank should always be concerned with monitoring inflation, but, if confirmed by the more difficult international outlook and assuming a tight fiscal policy, there is scope for gradually reducing the benchmark interest rate.

What is your assessment of the Rousseff administration?

From a broad political perspective the Rousseff administration is the continuation of the Lula administration, but each has its own characteristics. The second
Lula government itself was different from the first. My expectation is that President Rousseff will carry forward the changes that had already been occurring. Lula had an initial phase of caution from 2002 to 2006, playing defense to win the championship. To the extent that the defense worked and the crisis at the outset of his government was overcome, Lula gained confidence and started to move to the attack, especially in the second term, in terms of both economic and foreign policy. With the appointment of Rousseff as chief of staff and Mantega as minister of finance, the Lula government was reoriented in the direction of development policies without abandoning fiscal and monetary stability. This direction remains in the Rousseff administration, as does Lula’s legacy of promoting the affirmation of Brazil in the world with greater independence and autonomy. To follow this direction, however, we must maintain sound economic policies, with fiscal discipline and inflation control, and also sustain growth.

Brazil is currently quite orthodox, but the world is becoming less orthodox, as often happens in times of great crisis. During one period of world history, the dominant view was that markets regulate themselves and governments should play a secondary economic role. The crisis is changing these concepts. The IMF is no longer the same and the U.S., like the Europeans and the Japanese, also has a different attitude. Brazil is not experiencing a crisis as severe as those countries but does need to grow and continue to reduce social inequality. I believe the Rousseff administration will work in this direction.
The creative economy now represents almost 3% of Brazil’s GDP and certain sectors generate even more intense demand. Recognized in other countries for its importance in boosting economies during hard times, the creative economy is now beginning to draw attention in Brazil. However, because it is a relatively new way to classify economic activities that have some cultural or intellectual property element, and it covers such varied activities as game development and regional handicrafts, the potential of the creative economy in Brazil has not yet been prioritized by either the market or the government, so public policies for its development are lacking. That was one of the issues discussed at the First International Conference on the Creative Economy, organized by the Conjuntura Económica/The Brazilian Economy magazines of the Brazilian Institute of Economics of the Getulio Vargas Foundation (IBRE-FGV) and the Cultural Initiative Institute on September 20–21.

“Today many people still see the creative economy as limited to cultural matters, fashion or design, or even social inclusion. Actually, we’re talking about a major activity of segments capable of generating competitiveness and adding value even to traditional sectors, which today would not survive without breadth of knowledge and technology. In the real world, things are not separate,” said economist Lidia Goldenstein, moderator of one of the panels.

To Heliana Marino, manager of the Creative Economy for the Agency for Supporting Micro and Small Businesses (Sebrae), this industry represents a simple and brilliant idea with the advantage of an inclusive character focused on local, social, and sustainable development. “It’s a concept in motion. It requires identifying...
typical activities of a region that can generate a network of services,” she said, pointing out the dynamism inherent in activities that require such ingredients as creativity and innovation.

Among the difficulties the sector faces in gaining autonomy, Goldenstein highlighted the lack of comparable data and methodologies that allow better measurement of performance. “We have the English standard, which I find very limited, and also UNCTAD and Federation of Industries of Rio de Janeiro State (Firjan) definitions, to name a few. It is necessary to unify and enhance these concepts,” she affirmed. The Secretary of Finance of Rio de Janeiro State, Renato Vilella, agreed: “Although this has been a constant concern since the beginning of Sérgio Cabral’s government, defining public policies requires knowledge of the area.” Goldenstein, however, mentioned early policy initiatives of Rio de Janeiro and São Paulo cities to map the main poles of the creative economy in their own territories.

RIO-SÃO PAULO: THE CREATIVE AXIS

Luciane Leite, São Paulo Tourism director of tourism and entertainment, said the volume of funds handled by tourism and entertainment in the state capital, counting support activities, is about R$40 billion a year, equivalent to 10% of city GDP. According to a study by the Foundation for Administrative Development of the State of São Paulo (Fundap), between 2006 and 2009 formal employment in the creative economy grew 6.3%, well above the 3.5% in other sectors, with an average wage of R$3,100, compared to a national average of R$2,000. No less than 21% of all formal employment in the creative economy in Brazil is in São Paulo, especially in information technology (36%), editing / printing (19%), advertising / marketing (17%), and audiovisual (12%). Leite mentioned three features essential for creative cities: innovation, not only in sophisticated technologies but in solving everyday problems; connections, which means creating systemic interaction between various areas; and culture, recognizing architecture, art, design, fashion, and gastronomy. “São Paulo has all three, which puts us in a very privileged position,” she said.

To attract business tourism the city offers a wide range of entertainment. According to the Tourism Observatory of São Paulo, the capital has 288 theaters, 110 museums, some 12,000 restaurants, and 42,000 rooms in 410 hotels,
which have an average occupancy rate of 70%. According to the study, São Paulo attracts 75% of the trade fairs in Brazil and is the only town that annually has two international auto events (Formula 1 and Indy) as well as other regular attractions, such as São Paulo Fashion Week, which brings the city R$1.5 billion each time. Experts at the debate suggested, however, that this privileged position means the state capital has paid too little attention to policies to boost the creative economy. Goldenstein claimed that “São Paulo suffers from an excess of confidence and success; it was less affected by the crisis and has more fat to spend.”

For Rio, the urgency to respond to economic decline since the 1980s has been much higher. “Hitting rock bottom generated pragmatism, which is behind this political union that allows changes,” said Washington Fajardo, Rio de Janeiro city undersecretary for cultural heritage, urban intervention, architecture and design. “For São Paulo, what is missing is to do what Rio has been doing very well: promote attractions, despite problems faced daily.” Leite responded “We are not hiding weaknesses but showing that, even with the difficulties common to most large cities in the world, São Paulo has huge creative
potential and positive aspects that are not well known.”

In fact, when it comes to the creative economy, Rio now leads the nation. Julia Zardo, manager of the Catholic University Genesis Institute (PUC-RIO) said that, according to the Firjan study, in Rio 4% of GDP is generated by the creative economy, compared with 3.4% in São Paulo and an average of 2.6% for Brazil. Another survey, presented by Mario Borghini, director of economic development of the Instituto Pereira Passos (IPP), showed that in 2009 Rio had approximately 68,000 employees in creative-economy core activities and their wages were 14% above the state average. Creative-economy sectors account for 11% of total employment and 10% of payroll in the state.

Marcos André Carvalho, coordinator of the creative economy for the Secretary of Culture of Rio de Janeiro state, talked about the plan for analysis and diagnosis of the state’s cultural landscape and its regional potential. He explained that “The Program of Support for Cultural Development of Municipalities (Padec) has four lines of support: training in public management of culture, heritage recovery and conservation, strengthening of local cultural identity, and improving infrastructure for cultural activities.”

Marcelo Haddad, executive director of the trade promotion Agência Rio Negócios, pointed out some of the advantages of Rio de Janeiro city: “Rio is at the top in attracting investments, including six of the ten largest projects underway in Brazil,” he said, indicating that this is a benefit of a thriving creative industry. He added that this virtuous circle can earn an additional push from events the city will host in the next five years: Rio+20, the UN conference on sustainable development in June 2012, the World Cup in 2014, the 450-year anniversary of the city in 2015, and the Olympics in 2016.

**NOT JUST A FACADE**

According to economist Leydi Higidio, representing the Proyecto Industrias Culturales de Cali, Colombia, the bonuses generated by demand for infrastructure for international events is undeniable. “One of the remarkable urban transformations Cali experienced was in 1971 when the city hosted the Pan American Games,” she said. Today, Cali works to prioritize its cultural events, creating cultural spaces such as a theater festival and the ballroom for salsa, the popular rhythm in Colombia.

“Rio is at the top in attracting investments, with six of the ten largest projects underway in Brazil, and this movement benefits from a thriving creative industry.”

Marcelo Haddad
Fajardo of Rio city hall said that the two great legacies the Olympics will leave to Rio residents relate to urban transportation and revival of the city’s downtown. “The Wonder Harbor program, for example, also includes cultural facilities like museums,” he said. Experts at the seminar pointed out that the advantages of urban revitalization are not limited to its purely logistical or cultural value but can also mean the economic and demographic recovery of some regions. “We need investments and policies that have an urban facade,” Fajardo said. He believes one of the goals of major projects for his city should be to promote sustainable and quality development downtown. “The city center has the lowest population density, and the people who live there are in historical areas. That is why heritage is important — to reduce the process of desertification,” he said.

Another challenge, Fajardo said, is to revitalize the urban architectural heritage by housing new businesses in old buildings. As an example he cited the revitalization of Tiradentes Square, which included removal of railings around the monument, facilitating the movement of people, and association of the space with the Carioca Design Center. “Within a year and a half, the Carioca Design Center has brought in Studio-X, a project of Columbia University, around it new restaurants were opened, design offices moved in, and a French group acquired a hotel [the Hotel Paris] that had been of doubtful character,” he said.

Lilia Natal, communications manager of São Paulo City Tourism, gave examples of programs carried out in that city’s creative core, in Roosevelt Square and Augusta Street, where artistic and theatrical groups are clustering, and
there are free events in public spaces. “The most significant is the ‘Virada Cultural,’ a program to promote culture that last time attracted 4.5 million people,” she said. Natal also stressed the importance of such laws as the 2007 Clean City Law, which regulates outdoor advertising to fight visual pollution.

According to Karen Cesar, director of Red Bandana Multiexperiências de Marca, urban diversity is a key to the creative industry. Cesar, who studied at the Berlin School of Creative Leadership, discussed the example of the German capital, Berlin: “The country has always harbored a boom of ideas and expressions, with Berlin at its center. Today, this is reflected in 24,000 companies in [the creative] industry, generating 170,000 jobs,” she said, noting that UNESCO has identified Berlin as a City of Design.

Zardo of the Genesis Institute indicated that in restructuring, many cities, such as Barcelona and Dubai, have favored spaces designed to serve as centers of excellence in areas like digital media. “Currently, in Brazil, we have 400 incubators with 2,800 hatched businesses,” she said.

WHO PAYS?
A challenge for the creative sector is access to credit, especially because some parts of the sector are highly informal. The study “Territories of Fashion — The Fashion Industry in Rio de Janeiro City” conducted for the city by the Center for Technology and Society at FGV Law School in partnership with the IPP and Sebrae-RJ, looked into the universe of fashion and clothing. “Currently, in Brazil, we have 400 incubators with 2,800 hatched businesses,” she said.

The advantages of urban revitalization are not limited to its purely logistical or cultural value but can also mean the economic and demographic recovery of some regions.
Bank for Economic and Social Development (BNDES), the most effective tool BNDES offers is the BNDES Card, which like a credit card finances purchases by micro and small enterprises. “We have issued 350,000 cards and granted R$15.6 billion in loans with an average credit limit of R$43,000,” she said.

Regarding the core activities of the cultural economy (as BNDES refers to the creative economy), the bank has increased its disbursements considerably since 2006, when it created its first cultural economy product, the Procult, for activities that include restoration of cultural assets, financing the publishing sector, and entertainment, among others. BNDES disbursements have risen from R$42 million in 2005 to R$261 million in 2010. Fernandes explained that “We seek to prioritize integrated projects that encourage urban development, generating employment and income.”

The apple of the BNDES eye at the moment is the audiovisual sector. “We focus on the supply chain, introducing market logic and seeking greater professionalism, better management, and profitability,” she said, making a comparison with systems like the Rouanet Law, which does not require positive financial results. To this
end, the bank analyzes film projects in terms of three categories:

- Those that have business strength, with guaranteed distribution and box office potential. “We analyze the production and the business plan,” Fernandes said.
- Those producing films that have the capacity to win prizes by participating in festivals and marketing in foreign markets.
- Animation, a priority that includes TV programs aimed at children, such as Fishnaut and My Big Big Friend, which are both supported by BNDES. Fernandes explained that “This kind of project has the potential to boost other businesses, such as licensing of products featuring characters from the series.”

From 1995 to 2010 BNDES supported 340 films, lending R$133 million. In the audiovisual sector as a whole, it has disbursed R$165 million. Support can be returned as notices, credit (Procult), and equity in companies. For this, the bank has eased its risk rules, replacing guarantees by receivables, such as box office revenue.

UNITING THOUGHTS
Financial institutions focus on management and governance for a simple reason. In some segments of the industry, rather than intangible assets the risks of which are difficult to analyze, what hurts a business more is the belief that some creative professionals still profess that art and profit are incompatible. David Parrish, a British consultant to creative businesses, argued in the seminar that the first step to transform a business within the creative economy and stimulate growth and inclusion is to have an action plan and professional management in an activity that generates jobs and boosts the economy. “That does not mean selling your soul to the devil, forgetting your values,” he said.

Author of the book *T-shirts and Suits - A Guide to Business Creativity*, Parrish said he spoke from his own experience, not only as a consultant advising in 25 countries, including Colombia and Spain, but as an entrepreneur, when at age 20 he opened his first business with friends: a bookstore. “For me, business was a dirty word, related to exploitation. But ironically, I had to learn a lot about business because I had to sign contracts, manage people, market my business,” he said. “And I learned that there are tools you can use for your purposes, and it encouraged me to learn more. I went for an MBA, where I sometimes felt like a spy trying to steal the secrets of big business to adapt to our culture, our interests.” He came to the conclusion that it is possible to use the clothes — and the correct strategy — appropriate
to each occasion, without contaminating the creative portion of the business.

In his book, Parrish indicates that is a mistake to think that having creative talent means automatic success: “Nor is there a single formula to develop a creative economy. Liverpool took its strength, the music, as a starting point. In other countries, the characteristics may be different, just as the business environment changes.” He indicated that strategies must similarly be tailored so that a creative business does not lose its competitive differential; it must be guided by a management formula designed for it alone.

In a letter to seminar participants (read by Alessandra Meleiro, president of the Cultural Initiative Institute), the head of the UNCTAD Creative Economy program, Edna dos Santos, stressed the need to encourage creative entrepreneurs and raise society’s awareness of the importance of cultural and creative industry in defining strategies for developing countries to diversify their economies. “It’s the right time to put in place public policies and mechanisms that help to bind the interface economy-culture-technology and tourism,” she said.

Fabio Fonseca of the Institute of Cultural Initiative pointed out that the seminar had a symbolic importance in the trajectory of the creative economy in Brazil in helping to extend the debate from the public to the private sector: “We need to mobilize the business community to tap its potential. Among the various sectors that were represented in this two-day debate, our level of mobilization became clear: Now we need to convert that energy into action.”

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**CHAIN REACTION: LIVERPOOL, UK**

*Claudio Accioli*

A port city in deep recession, with bankrupt companies, empty buildings, unskilled labor, and a high unemployment rate — known worldwide as the birthplace of the Beatles — Liverpool, situated in the northwest of England, was far from a cozy place in the 1990s, when it was considered an area of economic depression. Its comeback began in 2000, boosted by a plan launched by then-Prime Minister Tony Blair with the aim of encouraging an industry that at the time did not formally exist: the creative industry.

According to the view now prevailing in the United Kingdom, the concept of “creative industry” involves activities that generate wealth out of knowledge and intellectual property, such as art, architecture, design, fashion, film, music, and television. “The government now understands the importance of the creative economy for revitalization of the city, but had no policies to foster its growth,” said the founder of the private Creative Industries Business Support Agency, Kevin McManus, who attended the International Seminar on Creative Economy, sponsored by Conjuntura...
Econômica/The Brazilian Economy magazine of IBRE-FGV and the Cultural Initiative Institute. Pioneering work to support government actions to foster the sector, the agency was crucial in mobilizing resources and attracting investors to establish a creative hub in Liverpool.

“It seems that was not long ago, but when we started our activities in 1997, not everybody in the UK had cell phones. The Internet was just beginning and many companies did not even have websites. Imagine talking about the creative economy in this context,” McManus said. But the discussion grew, and the city reacted very positively to the initiatives taken to encourage especially the cultural and information industries. In response to some €4 billion of investments over in the last decade, mostly from European Union restructuring funds, Liverpool’s economic growth is second only to London’s. Today, in its creative sector this city of half a million people has about 30,000 direct high-income jobs and 4,500 businesses; it is the third most visited destination in the UK after London and Edinburgh; it was one of two European cities that the EU named a Cultural Capital in 2008; and UNESCO will soon declare it a City of Music.

Contrary to those who see the public sector as the agent most able to foster development of creative markets, McManus did not hesitate to point out his agency’s flexibility and nongovernmental approach as fundamental elements for a successful relationship with its target audience — mostly actors, designers, musicians, publishers, and software developers. “The local and national governments only had the tools to support traditional businesses. Also, I think the bleakness of the public sector does not match with these people whose lifestyle is more relaxed,” he said, adding that most people are surprised when they discover that the agency actually works in partnership with the government.

The recipe for success, McManus said, includes such ingredients as proximity and support to entrepreneurs; establishing a bridge between professionals with common interests; creating networks to connect businesses; stimulating the exchange of information and resources; doing research to collect sector data; and continuous ongoing advocacy of creative industry with the government. “We have created, for example, a social network that enables the sharing of portfolios at very low cost, and we’ve partnered with companies that have purchased property at the docks to turn it into clusters of related creative enterprises, especially in the case of games,” he said.

However, despite significant achievements, McManus complains that even today, the British government is ineffective in supporting entrepreneurs: “Politicians like our current prime minister always stress the importance of the sector, but public policy does not reflect this. It takes patience and above all perseverance to move forward.”
The creative economy—books, songs, and video games,—is saturated with intellectual property, demanding rules that guide reproduction of such products and their economic use. However, the increasingly widespread use of new media, which facilitated the production and dissemination of the most diverse creations, has created a new environment: Now, while traditional industry complains about economic losses, there has been a windfall for consumers, who now have broad access to cultural products.

“The world music industry is the one that has complained the most, arguing that its economic activity in the last 10 years has fallen by half due to new ways of sharing [music],” said Pablo Ortellado, professor in the Research Group on Public Policies for Access to Information (Gpopai) of the São Paulo State University (USP). “Yes, there was a decline in sales, and this will also happen with books as a result of [their] migration to electronic platforms. But the conclusion from this is doubtful, since on the other hand new technologies have substantially increased consumption of cultural goods,” he pointed out at the seminar.

Ortellado considers the music industry’s view to be dangerous at a time of worldwide heated debate about the revision of copyright laws. “This leads to the argument that we should turn the clock back and return to the world of the past, instead of taking the opportunity to adapt the legislation to embrace new uses,” he said.

For the German sociologist Volker Grassmuk, this risk stems from the fact that, until recently, the logic behind copyrights was that musicians’ inspiration should be related to their remuneration, and the obligation prescribed by law gave consumers incentive to pay for cultural products. “At the moment, we see that different forms of mo-
The question is how these models are legalized. In Brazil, there has recently been introduced the license to share (creative commons), a project that already exists in more than 40 countries and here is coordinated by the FGV Law School in Rio de Janeiro. Castro reminded the audience that through this project, Maranhão state movies like “Oh, What a Life” (“Ai que vida”) could be downloaded, copied, and distributed for free, becoming a hit and eventually making it to the big screen. Yet the challenges are many.

Clifford Luiz Guimarães de Abreu, general coordinator of copyright dissemination and access to culture of the Ministry of Culture, pointed out that the Brazilian law does not cover the internet, but said there has already been an improvement by including a consumer in the picture while before only creation, production, and distribution of cultural products were considered. “We are reviewing statutory limitations and exceptions, opening, for example, the possibility for consumers to privately copy [cultural products],” he explained.

Guimarães pointed out that Brazil is under international pressure to comply with copyright laws, since the World Intellectual Property Organization (WIPO) “favors the protection and expansion of the materials that must be protected,” and that crackdowns on illegal copying have intensified since the TRIPS Agreement in 1996, which tied intellectual property to international trade and stipulated that all signatories comply with the agreement within 16 years. “Many groups who did not question intellectual property [law] before have … joined the debate,” he said. The Agenda for Development, led by Brazil and Argentina, has argued that the development level of a country and its ability to make use of intellectual property should be considered when enforcing copyright laws.