ANNUAL REPORT ON COMPETITION POLICY DEVELOPMENTS IN BRAZIL

-- 2012 --

This report is submitted by Brazil to the Competition Committee FOR INFORMATION at its forthcoming meeting to be held on 19-20 June 2013.
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Introduction

1. The year 2012 has been very productive for the Brazilian competition system and for the diffusion of competition culture. Indeed, the law adopted in November 2011 entered into force in May 2012 thereby bringing about structural, institutional and technical changes in the Brazilian competition field. The Brazilian Competition Authority maintains its basic functions and objectives and it accordingly still seeks, first, to prevent any violation of the competition legal framework, second, to adopt repressive measures for such violations and, third, to promote the competition culture. It is on this triptych background that this report shall present the Brazilian Administrative Council for Economic defense’s (CADE for the Portuguese acronym) activities in 2012. This shall be done by presenting the changes in competition laws, policies and institutional organization with the entry into force of the new law (First Part). On this basis, the tribunal’s activities focused on the enforcement of competition laws shall be highlighted; this shall be done by examining CADE’s competition policies’ implementation over the same period (Second Part). After the description of these contentious aspects of the competition system, the report shall explain how CADE monitored its competition advocacy activities (Third Part). After these technical considerations, CADE’s resources (Fourth Part) and publications (Fifth Part) will be presented.


2. The changes have been numerous in 2012, on both the normative (1.1) and the institutional level (1.2).

1.1 Changes in legislation and innovations in CADE’s resolutions

3. For more convenience and clarity, the changes in the competition legislation (1.1.1) will be presented separately from the changes in CADE’s resolutions (1.1.2).

1.1.1 Changes in legislation

4. The year 2012 has been of upmost relevance for the Brazilian competition field as on the 29th of May 2012 the new antitrust law 12.529/11, adopted on the 30th of November 2011, entered into force. The changes introduced by the new law can be considered as being structural (i) and technical ones (ii).

(i) Structural changes introduced by the new law

The law 12.529/11 modifies the landscape of the Brazilian Competition Policy System with the aim of rationalising its operations. Under the repealed law, the antitrust operations were divided between the Secretariat of Economic Law of the Ministry of Justice, the Secretariat for Economic Monitoring of the Ministry of Finance and the Administrative Council for Economic Defence. As per the new law, all the functions are centralised under the New-CADE, the aim being to avoid any overlapping and, thereby, to promote the authority’s efficiency. For this purpose, the New CADE is divided into three main departments: 1) the Administrative Tribunal composed of one Chairman and six Commissioners, and maintaining jurisdiction over merger and conduct cases; 2) The General Superintendence, competent for the approval of non-competitive mergers, for reviewing submitted transactions and for forwarding litigious cases to the Tribunal; 3) The Department of Economic Studies responsible for producing non-binding opinions so as to support and ground the technical decisions rendered by both the Tribunal and General Superintendence. More details of the new CADE’s organisation will be presented hereinafter in an organisational chart. The new organisation abides to a spirit of pragmatism, efficiency and rationalisation. The same applies to the technical changes introduced by the new law.
(ii) **Technical changes introduced by the new law**

The technical changes include, on the upstream, the introduction of a pre-merger merger notification mechanism (a) which is itself framed upon the new notification thresholds brought in by the law (b); on the downstream, the fining policy and the leniency program have also been revised (c).

a) The introduction of a pre-merger notification mechanism

The new law provides for an *a priori* merger notification mechanism: concerned companies should notify the authority of any merger before the latter is consummated. Consequently, the merger has to be approved by CADE *ex ante*. The authority can thus assess the competition aspects and conundrums thereto related. In this vein, it can reject or offer appropriate remedies and directions to any anti-competitive mergers. It is expected that the authority renders its decision within 240 days, after the notification by the companies; this period can be extended following a formal request by the concerned companies or *proprio motu* by CADE whenever the complexity of the case thereupon commands. In cases of “gun-jumping”, *i.e.*, merger settlement without the authority’s approval, the transaction can be declared void and the parties are liable to a fine ranging from 60,000 reais to 60 million reais.

The new configuration enables a rationalisation of CADE’s control. Any merger is done in an orderly and pragmatic fashion: resources are not wasted (by companies) to set up the merger’s structure until it has been validated by the authority. This new framework contributes to strengthen the legal security in merger cases. The pre-merger notification, however, depends on some new threshold entrenched in the new law.

b) The new threshold for the pre-merger notification.

The law states that the new notification thresholds should be as follows: the State-wide turnover of one of the companies for the fiscal year preceding the merger should amount to 750 million reais, whilst that of the other company should have reached the threshold of 75 million reais for the same period. The new thresholds were set by a joint Regulation issued by the Brazilian Ministers of Justice and of Finance on 30 May 2012. In some cases, CADE is also competent to follow mergers established beneath such thresholds; this should be undertaken within the year following the merger.

c) Revision of the fining policy and of the leniency program.

The **fining policy** is applicable to the company as a private person and to the companies’ executive members.

- The new fines imposed for anticompetitive transactions range between 0.1 and 20 percent of the company’s gross turnover covering the financial year preceding the beginning of the authority’s investigations. The previous law provided for a fining range of 1 to 30 percent of the gross revenue.

- The executive members of the company are liable to a fine ranging from 0.1 to 20 percent of the fine imposed to their company.
As for the leniency program, the new law highlights that the head and leader of a given cartel can now benefit from the leniency accorded by the authority. Besides the leniency granted to company is, under the new law, extended to other cartel related crimes.

On the basis of the new law, CADE has adapted its operations by the adoption of some new resolutions.

1.1.2 New resolutions adopted by CADE on the basis of Law 12.529/11

5. Complementary to the structural and technical changes imposed by Law 12.529/11, CADE’s Plenary issued Resolutions of relevant legal content for the New CADE. In this sense, this section’s objective is to mention the most important ones: Resolutions No. 1, No. 2 and No. 3, all of which are dated from May 29, 2012.

(i) Resolution No. 1 provided for RICADE, CADE’s Internal Statute. RICADE’s main articles encompass the regimental competencies of the authority, such as the determination of the existence of violations to the economic order and the application of penalties, as well as general internal proceedings.

(ii) Resolution No. 2, on the other hand, provides for the notification of mergers (in accordance to Law No. 12.529/2011, article 88), stating that fast track proceedings should be used for the analysis of mergers. In addition, fast track proceeding must also be used for cases that are potentially less offensive to competition because of the simplicity of the concerned operations.

(iii) Resolution No. 3, for its turn, stated the List of Branches of Business Activities, containing 144 different branches, and stated that if the infraction to the economic order occurred in more than one branch, only the sum of the gross revenues obtained in all branches affected must be considered. However, if this information is not available, CADE shall consider the total revenue of the given company.

(iv) Resolution No 4, finally, establishes recommendations concerning technical opinions submitted to CADE.

1.2 Changes in the institutional organization

6. The changes are better expressed by comparing the institutional organization before (1.2.1) and after (1.2.2) the entry into force of the new law in 2012. The changes will be compared through organization charts.
1.2.1 The institutional organization before 2012

1.2.2 The institutional organization after 2012
7. After this presentation of the changes and innovations in the competition laws, policies and structural organization, it is relevant to present how the new structures have dealt with the new normative framework. This shall be done by reviewing the enforcement of competition laws and the implementation of competition policies in 2012.
2. Enforcement of competition laws and implementation of competition policies

8. The presentation of a summary of CADE’s tribunal activities will enable to grasp the legal activity to which the authority was committed in 2012 (2.1); the obtained information will then be used to point out the main sectors concerned by competition law enforcement during this same period (2.2).

2.1 Summary of activities related to law enforcement and policy implementation

9. The summary is best concocted by presenting the main cases tried by CADE’s Tribunal in 2012 (2.1.1.) and by sorting them out following a statistical methodology (2.1.2.).

2.1.1 Main cases

10. The main cases referred to are those dealt with by the Tribunal (a), inspected by the General Superintendence (b) and, finally those having been submitted to judicial review (c).

a) Tribunal

The most relevant merger cases tried by the Tribunal in 2012 were:

- Approval with restrictions of the acquisition of Webjet by Gol (merger file no. 08012.008378/2011-95). The approval was conditioned to the efficiency criteria in the Santos Dumont airport in Rio de Janeiro. The constraint imposed by CADE aims at ensuring the provision of passenger flights from Santos Dumont airport;

- In the cement market, the Plenary unanimously reproved two mergers (merger file no. 08012.001875/2010-81 and no. 08012.001879/2010-69), while it approved two others upon the signature of a Performance Commitment (merger file no. 08012.002018/2010 and no. 08012.002259/2012-18). The cases involve companies such as Votorantim Cement SA, Camargo Correa SA, Portugal SGPS SA and CCB - Cimpor Cement of Brazil Ltda.;

- In the hospitals market, two mergers involving the Group Amil were not approved (merger file no. 08012.010094/2008-63 and no. 08012.006653/2010-55) and restrictions were imposed to the operation presented by the D’Or network (merger file no. 08012.004596/2011-51); and

- Approval of the joint venture between Itaú Unibanco S/A and Banco BMG S/A. It was the first merger file completely analyzed by the General-Superintendent after the new law came into effect 12.529/11. The operation was analyzed in 48 days.

The most relevant cases in the area of Unilateral Conducts tried by the Tribunal in 2012 were:

- Condemnation of the company Peróxidos do Brasil Ltda. along with individuals related to it for the formation of a cartel in the market of hydrogen peroxide (H2O2) in the period 1995-2004. The cartel involved the two largest manufacturers of the product in Brazil. A fine amounting to BRL133.6 million was levied against the company and the individuals were sentenced to a total of BRL 16.4 million, in addition to other penalties (Administrative Proceeding no. 08012.004702/2004-77);
• Condemnation of *Comepla Indústria e Comércio Ltda.* for price discrimination and tying practice in the sectors of manufacturing, placing automotive license plates and the sealing off of vehicles (Administrative Proceeding no. 08012.001099/1999-71);

• Signature of Cease and Desist Agreements (TCC for its acronym in Portuguese) with *Banco do Brasil S.A* (Administrative proceeding no. 08700.004988/2012-42), which determined the end of exclusivity in the field of payroll loans.

b) General Superintendence

CADE’s General Superintendence started 56 investigations for violations against the economic order. Furthermore, 3 Administrative Proceedings were started and forwarded to the Tribunal. Empowered by the new legislation, the General Superintendence strengthened its leniency program and received 10 first-in leniency/immunity applications and 37 leniency applications in total (markers). Additionally, in 2012, 5 dawn raids were carried out and 60 investigations were launched, out of which, approximately 20 were administrative proceedings and 20 were preliminary investigations related to abuse of dominance cases. Finally, around 31 administrative proceedings and 56 preliminary investigations were closed in 2012.

However, criminal prosecution is a judicial procedure and CADE does not possess direct access to criminal court’s proceedings.

c) Judicial review

In cases in which CADE is part there were 194 decisions: 45 procedural orders, 125 decisions from higher courts, 16 decisions approving preliminary injunctions and 8 favorable advance appeals decisions. Additionally, 4 injunctions were unfavorable to CADE and 12 were in favor of CADE, among which we point out the 8 search and seizure requests that were used in the dawn raids held by the General Superintendence.

**Total of final judicial decisions**

<table>
<thead>
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<th>Favorable (137)</th>
<th>71%</th>
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<td>29%</td>
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The most relevant decisions in the judiciary favorable to CADE are:

- **Peróxidos** - the Administrative Proceeding no. 08012.004702/2004-77 was scheduled to be taken before CADE’s Tribunal on trial session of May 9, 2012. The parties made three requests before the judiciary, in order to prevent the aforementioned trial session, under the allegations that their legal right of defense had not been respected by CADE. Nevertheless, the requests were all rejected in the judicial courts.

- **Federal District Gas Stations Cartel** – CADE’s Tribunal unanimously condemned SINPETRO and NETWORK GASOL and IGREJINHA for limiting competition by impairing the entrance of a new competitor in the retail fuel market in the Federal District and imposed a amounting to 5% of the companies’ gross revenues. The companies tried to invalidate the administrative condemnation before the judiciary. The Higher Regional Federal Court, unanimously, upheld the appeals of CADE and confirmed the decision imposed by the federal agency.

- **White Martins** - The Higher Regional Federal Court upheld sentence a decision imposed by CADE against White Martins Gases Industrial Ltda., which was the most expensive fine ever imposed by CADE.

### 2.1.2 Statistics related to law enforcement and policy implementation

In 2012, the Tribunal held 22 trial sessions, in which 836 proceedings were tried, divided into: 731 Mergers; 15 Administrative Proceedings; 54 Preliminary Investigations; 19 Clarification Appeals; 17 Other Procedures. Refer to the graphic representation of those numbers below:

**Proceedings tried by CADE in 2012**
2.2 The main sectors concerned by competition law enforcement

12. The most relevant sectors and sub-sectors in the investigation of anticompetitive conducts were: Mineral Extraction, Food Industry, Beverage Industry, Industry of non-metallic mineral products, Telecommunications, Retail, Transportation Services, and General Services.


3. The implementation of competition policies and the promotion of competition advocacy activities

14. For the purpose of bettering the implementation of competition policies, CADE has adopted special measures thereby reforming its internal policy (3.1), fostering competition advocacy before the judicial courts (3.2), consolidating institutional cooperation (3.3) and finally, promoting the Brazilian competition culture (3.4).

3.1 Internal reforms to consolidate the promotion of competition

15. Considering all the changes brought about by the new law, most of CADE’s work in 2012 was related to making all necessary changes so as to adequately adapt thereto. In this regard, the main action of CADE in 2012 was the implementation of the New CADE, together with an Organizational restructuring completed by the new internal regulations. Besides other important changes, such as the change of
headquarters to accommodate the expansion of powers and of the personnel, there was the review of the internal regulatory framework, in order to adapt to changes in procedural deadlines presented in the new Law, and the development of a more agile Information Technology System for procedural follow ups.

16. On the case analysis itself, CADE implemented the pre-merger review and the new Thresholds for merger notification. Moreover, all merger analysis deadlines were robustly reduced. Under the new law, CADE has taken around 19 days to analyze the simplest cases and less than 50 days to analyze more complex cases. In 2012 after the enforcement of the new law, 5 dawn raids were successfully concluded and there was a relevant decrease in the number of investigations in stock.

17. The role of the Department of Economic Studies (DEE, for its acronym in Portuguese) was significantly enhanced by the new legislation. In this regard, DEE completed the first study of the impact of CADE’s decisions and started monitoring some sectors.

3.2 Competition advocacy before the judiciary

18. The innovations introduced by the new competition law, as well as the change in the structure of the Brazilian antitrust authorities, brought the need for affirmative behavior from CADE, that has made itself available to those agencies that deal or might deal with demands related to any competition concerns arising from the interpretation of the new law. With such objective, CADE’s President, accompanied by CADE’s General Attorney, have visited the Presidents of the Federal Regional Courts and Federal Regional Offices. Such initiative was well received by the Judiciary and strengthened the relationship between the two organs.

3.3 Relationship with other institutions

19. CADE has woven close links with other institutions on both a national and an international level so as to strengthen the institutional competition framework (3.3.1.); in 2012, this was formalized in a timely manner by the organization of the International Competition Network annual conference in Brazil (3.3.2.).

3.3.1 CADE’s proactive role in institutional cooperation

20. Concerning its relationship with other institutions, the council has decided to play a more proactive role on the technical interaction with other Brazilian regulatory agencies and has committed itself to establish agreements with them in the near future. For instance, discussions are advanced with the Brazilian National Agency of Petroleum, Natural Gas and Biofuels (ANP for its Portuguese acronym). Additionally, CADE was able to implement the necessary changes in a Project with the UNDP that brings extra financial resources to fund consultancy projects established with external consultants. Furthermore, in order to strengthen cooperation between other competition authorities, CADE has signed Memorandums of Understanding with the National Institute for the Defense of competition and Protection of Intellectual Property (INDECOPI, Peru) and the Ministry of Industry and Trade of the Republic of China (SAIC, China).

3.3.2 The organization of the ICN’s annual conference in Brazil in 2012

21. CADE hosted the Annual Conference of the International Competition Network (ICN), the largest international event in the field of antitrust, in the City of Rio de Janeiro, from 17 to 20 April 2012. The event was held from 17 through 20 April, 2012, in the city of Rio de Janeiro and it was attended by 489 participants, including 390 delegates from foreign competition agencies. Amongst the attendees, around 55% were from competition agencies, 44% were non-governmental advisors (“NGAs”) and 1% from international organizations. The total budget of the event was BRL 442.000, which represents
approximately one-third of the amount spent by the Dutch antitrust agency, at the Hague Conference, held in the year before.

22. In a survey conducted among the participants of the event, there was a satisfaction rate of 90.32%. The program was developed in conjunction with the Annual Conference Planning Committee (ACPC) and it included plenary sessions and panel discussions. The program also included a Special Project undertaken by the host country entitled Leniency and Settlements in Competition Enforcement Procedures.

3.4 The promotion of competition culture in Brazil

23. Part of the competition culture promotion policy was made effective by the organization of CADE’s 50th anniversary (3.4.1.), by the creation of the Citizen Information Service (3.4.2.), by the PINCADE program (3.4.3.) and finally, by the relaunching of the Brazilian Competition Journal (3.4.4.).

3.4.1 The organization of CADE’s 50th anniversary.

24. In September 2012, a commemorative calendar started, which includes the following events to occur in a one year period:

(i) The publication of a book, about the evolution of Competition in Brazil having as background, the history of CADE;

(ii) Educational campaigns to disseminate the importance of the work of the Authority for the protection of the competitive environment and of the economic order;

(iii) Seminar commemorating the 50th anniversary of CADE, with a cycle of lectures on Competition; and

(iv) Ceremony commemorating the fiftieth anniversary of the Council.

25. In 2012, CADE launched the advertising campaign and held a commemorative ceremony. The campaign included the production of graphic material, publication of advertisements in major newspapers and national magazines and electronic sites linked to business, between September and October. The commemorative ceremony was held in the plenary of the new headquarters and it was attended by the Honorable Minister of Justice, as well as by former members of the Tribunal. The commemorative seminar and the book launch are scheduled for 2013.

3.4.2 The creation of the Citizen Information Service

26. To ensure transparency, on March 21, 2012, CADE deployed an Information Service for Citizens, which aims to enable every citizen to request access to public information that may not be available on CADE’s website, except for those information classified as confidential. Accordingly, any Brazilian citizen may contact CADE in person, by post mail, by e-mail at sic@CADE.gov.br or through the website.

27. It is important to mention that most information is already made available through CADE’s website, including the public versions of the Tribunal decisions, management reports, the list of contracts and procurement, among others.
CADE’s PINCADE program

CADE has an exchange program non-remunerated internship that lasts approximately a month, this program is named as PINCADE. It is meant for higher education students – undergraduate students from their 6th semester on and graduate students – who have been chosen among those indicated by upper education institutions.

The program content includes lectures, exercises based on the analysis of cases already judged, and practical work with cases that are in procedure by CADE’s Commissioners as well as within the Office of the Attorney General of CADE and other administrative sectors such as the Presidency Office. In the end of the program there is an exam at the end of the internship and the issuance of a Certificate.

The exchange student is required to sign an affidavit due to the kind of information they may access. In this affidavit he/she agrees not to work on proceedings in procedure at CADE and not to use any information obtained therein the program following the end of PINCADE.

The relaunching of the Brazilian Competition Journal

CADE decided to take serious measures to relaunch a new edition of the Journal, now entitled Revista Brasileira de Defesa da Concorrência. The aim is to obtain a good ranking for the Journal as per the Brazilian journal’ Ranking System known as Qualis. Various articles have already been received and reviewed by independent reviewers. The first volume is to be launched in May 2013. It is accessible at http://www.cade.gov.br/revista.

Resources of CADE

CADE’s financial resources shall be presented (4.1) before the human resources (4.2).

Financial Resources

In 2012, CADE had a total budget of BRL 32,517,802,00 (thirty-two million, five hundred and seventeen thousand, eight hundred and two reais) available to serve the priority programs of the council for the maintenance of the unit and for the structuring of the new headquarters. From this amount, BRL 25,704,207,00 (twenty-five million, seven hundred and four thousand, two hundred and seven reais) were
approved by the 2012 annual budget Law (LOA) for application in personnel, funding and capital. There was a budget supplement of BRL 2,546,465.00 (two million, five hundred and forty-six thousand, four hundred and sixty-five reais) to allocate in personnel and their benefits: this was due to the increase in the number of civil servants after the approval of the Law nº 12.529/2011. A contingency reserve of BRL 4,267,130.00 (four million, two hundred sixty-seven thousand, one hundred and thirty reais) was also accorded.

**Total Budget BRL 32.517.802**

Source: CADE's Management Report to TCU for the year 2012

34. The changing structure of the CADE arising with the new law has generated an increase in the payroll staff of 88.9%. Besides, expenses *per diem* increased by 177.7% as compared to 2011 due to the creation of the General Superintendence.

35. In 2012, CADE also received from the Secretariat of Economic Law of the Ministry of Justice BRL 600.000.00 (six hundred thousand reais) intended to cover the expenses for hiring a specialized company for the 2012 ICN Annual Conference, held in Rio de Janeiro in May 2012.

### 4.2 Human Resources

36. In 2012, 84 civil servants joined the Council and 18 left. In December, CADE had 160 civil servants. Among CADE’s training actions, in 2012, 120 civil servants were trained in at least one of the following: 99 open courses, 14 languages courses and 7 post-graduation studies. CADE also holds 150 outsourced employees and 41 trainees.
5. **Publications by the Brazilian CADE**

5.1 **Papers on competition law and policy submitted to the OECD**

37. All in all, three papers and four questionnaires were sent to the OECD in 2012.

38. The papers were respectively entitled:

   a) Competition in Hospital Services

   b) Competition and Poverty (LACF)

   c) Improving International Co-operation in Cartel Investigations

39. The questionnaires were respectively related to:

   a) OECD – International Cooperation

   b) OECD – Competition Neutrality

   c) OECD – Feedback questionnaire of 2011

   d) OECD LACF – Follow up to the 9 Peer Reviews of Latin American Countries.
5.2 Main publications on competition law and policy written by CADE’s staff

CARDOZO, José Eduardo; CARVALHO, Vinicius Marques de. “Nova etapa no CADE”. Jornal O Globo, página 7, 18/06/2012.


RAGAZZO, Carlos Emmanuel Joppert. ANDRADE, Diogo; Beyond Detection: The Management of Cartel Cases 2012 (Coluna Mensal Eletrônica).