

The new brazilian Growth Acceleration Program and the war contracts

SÃO PAULO, SP, BRAZIL, September 29, 2023 /EINPresswire.com/ -- The world is experiencing a boom in military expansion. Data from the Stockholm International Peace Research Institute (SIPRI) – a traditional think tank dedicated to studies of the sector – point out that global military spending has increased by 3.7% in real terms in 2022, reaching an all-time high of 2.2 trillion dollars. The increase in the decade from 2013 to 2022 was 19%, with an uninterrupted upward curve since 2015.

The war in Ukraine was certainly one of the drivers of such increase in the last year measured, but it was not the only factor. There is a broader trend, linked to the phenomenon of growing nationalism in several countries and even to the pandemic, which has strengthened the protectionist sentiment.

Brazil is no exception to this trend. This is reflected in the New PAC (Growth Acceleration Program), announced with a bang a few weeks ago and which has a significant portion of its funds allocated to war contracts. There are 52.8 billion reais for the area called "innovation for the [defense](#) industry" (a large part, it is true, made up of contracts executed years ago and still being performed, but figures remain significant). However, the logic behind



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the strategic decision to increase Brazil's military [power](#) is quite different from what drives other nations, such as current or imminent geopolitical or religious conflicts, and includes very specific objectives. The need to prevent the worrying destruction of the Amazon rainforest – a commitment embraced as a priority by Lula's government in the eyes of the international community and which requires investments in cutting-edge technology – stands out.

Therefore, there are goals of unquestionable relevance. The successful execution of these public defense policies depends, among other factors, on how such contracts will be made. In this respect, defense contracts around the world seek to accomplish not only the main purpose of meeting the primary demand for equipment or services, but they also serve parallel functions. Contracts are often associated with compensatory measures owed by contractors, which can take on the form of investment obligations, local production, and technology transfer. The so-called offset contracts are carried out by almost all developing countries. The Agreement on Government Procurement (GPA) itself, which, as a rule, prohibits signatory countries from stipulating offsets in their international government procurements, provides for defense acquisitions by developing countries as one of the exceptions (article III).

In Brazil, offset requirements have been part of the government's military procurement policy since the 1970s, launched with the acquisition of the Xavante aircraft by the Air Force Ministry, which provided for [technological](#) transfer to the then newly created state-owned company Embraer. In 2012, the matter was expressly regulated by Law No. 12,598/2012, which covers the contracting of defense products and systems and provides, as a rule, for the establishment of technological, industrial, and commercial offset agreements for imports of this nature. Recently, the Ministry of Defense published the new Defense Technological, Industrial and Commercial Offset Policy - PComTIC Defesa (Ordinance GM-MD No. 3,990, of August 3, 2023), which imposed the obligation to establish cooperation agreements for all imports of defense products worth more than 50 million dollars, dischargeable only in cases where this is proven to be impossible.

In the New PAC, this objective is expressly set for military public contracts, which must seek to “create jobs and foster neo-industrialization.” This reinforces the parallel role adopted by the Brazilian Armed Forces over the last decades: these bodies no longer have the exclusive role to protect the territory and ensure peace and order, but rather have become agents of technological development and advocates of economic growth, strengthening the industrial base through the use of procurement power.

However, there are important lessons learned from previous experiences that can help enforce this policy more wisely. The most relevant point refers to the risk of technological obsolescence, as these are long-term contracts involving technologies that evolve very quickly. It is important to guarantee an agile transfer process, which not only allows the country to make good use of the benefits of the contractual offset, but also provides the conditions for the technology to be improved and expanded autonomously.

Moreover, the choice of offsets must focus on additionality, improving the current situation of

our industrial base and minimizing its weaknesses. The common mistakes in local content policies, which choose the wrong targets without respecting the country's industrial aptitudes and end up increasing foreign dependence, must be avoided. Finally, to further promote local industry, the Armed Forces can rely on preferential treatment mechanisms provided for in Law 12,598/2012 for Strategic Defense Companies, which are expressly recognized as “essential for promoting the Brazilian scientific and technological development and crucial for preserving national security and defense against external threats.”

The New PAC is certainly a good time to reflect on the best industrial policy for the defense sector. Strategic intelligence in the offsets sought will be decisive in creating jobs, modernizing the production chain and, eventually, better equipping Brazil to protect national interests.

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