Looking Ahead ➔ What to watch for?

- 17-18 June – UK Brazil Forum at LSE & Oxford University
- 18th June -- Former President FH Cardoso celebrates 85th birthday
- 20th June -- IBGE to release IPCA-15 ➔ +0.%, vs. +0.% in May
- 23rd June -- IBGE – PME unemployment in May ➔ ___%
- 23rd June -- IBGE to release IPCA-15 inflation data ➔ ___ %
- 23rd June – BREXIT referendum in the UK
- 24th June -- SRF - May federal revenues R$ ____ billion
- 24th June -- Caged - _____ new jobs created in May
- 27th June -- June IGP-M ➔ +___% ➔ +___% for 12-month period
- 27th June -- IBGE: April retail sales ➔ ___% MoM & ___% YoY
- 29 June-3 July -- 14th FLIP ➔ International Literary Festival in Paraty, RJ
- 30th June -- Public Account data for May
- 1st July -- Trade balance for June & 1st semester
- 4th July -- New car sales June, _____ units (___% YoY), in 1st semester (___% YoY)
- 4th July -- IBGE industrial production for May ➔ ___% MoM & ___% YoY
- 4th July -- US Independence Day [national holiday]
- 6th July -- FGV to announce IGP-DI for June ➔ ___%
- 7th July -- IBGE to release IPCA inflation data for June ➔ ___ %
- 9th July -- State Holiday in SP – [“Commemorate” defeat in the 1932 Revolution]
- 11th July -- IBGE – Industrial employment in May ➔ ___% MoM.
- 11th July -- IBGE ➔ Industrial Production in May
1 - POLITICS

1.1 - Thomas E. Skidmore - Troy, OH (22-07-1932) ➔ Westerly, RI (11-06 2016)

Prof. Thomas Elliot Skidmore was a “giant” among American Brazilianists. He was born in Troy, Ohio on July 22, 1932, but when he was six months old his family moved to Cincinnati where he grew up and completed Wyoming High School. In 1954, he completed his BA at Denison University, majoring in Political Science and Philosophy. He received a Fulbright Scholarship to study PPE at Magdalen College, Oxford University (1954-1956).

While at Oxford, Skidmore met his future wife, Felicity Hall, whose father, Robert Hall was a founding fellow at Nuffield College and later Principal at Hertford College. She was employed at The Urban Institute Press in Washington, DC after they left Madison, Wisconsin in 1986.

He received his Ph.D. from Harvard University (1960) with a dissertation on The Chancellorship of Caprivi: A Constitutional Study. In the wake of the Cuban Revolution, Harvard awarded Skidmore a three-year post-doctoral fellowship to study the Latin American country of his choice and he chose Brazil. Tom quipped – “I am one of Castro’s sons”. This three-year period ended with the Brazilian military coup that toppled Pres. João Goulart on 31st March 1964. By chance, Skidmore was having dinner with then US Ambassador Lincoln Gordon on 30th March 1964, the evening that the military coup began. Reportedly, Skidmore’s father-in-law was a friend of Amb. Gordon. The product of this research was a seminal book on Brazil – Politics in Brazil (1930-64): An Experiment in Democracy. (1967). The Brazilian translation was Brasil - De Getúlio [Vargas] a Castelo [Branco]. This book became required reading for students of Brazil and I read this work in my graduate courses at the University of Florida (Latin American Politics and Brazilian Politics) in the late 1960s.

In 1966, Tom Skidmore joined the faculty at the University of Wisconsin in Madison with a major role in its Latin American Studies Program and edited the Luso-Brazilian Review. In the late 1960s and 1970s, the university housed the Land Tenure Center that studied the problems of land ownership in Latin America. Also, the SDS-Students for a Democratic Society was born at UW-Madison.

I first met Tom in June 1969 when I participated in a conference at the University of Wisconsin. He graciously invited me to his house and we chatted about Brazil for some two hours. I was on my way to Brazil to conduct field research for my doctoral dissertation based at the DCP-UFMG (1969-1971). Since then, we met on many occasions and maintained a long and productive relationship.

After 20 years in Madison, in 1986, he moved to Brown University in Providence, RI as the Carlos Manuel de Céspedes Professor of Modern Latin American History and Professor of Portuguese and Brazilian Studies. He was Director of Brown’s Center for Latin American Studies until he retired in 1999. After Fernando Henrique Cardoso left the Presidency of Brazil in 2003, he spent five years at Brown as a senior visiting scholar attached to the Watson Institute. In 1989, I visited Brown University at the invitation of Tom Skidmore and prior to my presentation, he asked the audience if I should speak in English or Portuguese. Some 2 or 3 persons said “English” – so my talk was in that language.

Tom was a very active founding member of LASA-Latin American Studies Assn. – a member of the LASA Executive Board (1968-1973) and President (1972-1973). In 2001, Tom received the LASA Kalman Silvert Award. He was also a founder of BRASA-Brazilian Studies Assn. in 1994. During the 8th International BRASA Conference at Vanderbilt University in October 2006, he received the BRASA Lifetime Contribution Award – complete with a video of his life, his accomplishments, and contribution to Brazilian Studies.

He was very active in organizing academic opposition to Brazil’s military regime. In 1970 (*anos de chumbo*) along with three other prominent brazilianists, he drafted an open letter condemning the imprisonment of leading Marxist historian Caio Prado Junior. He also sponsored a LASA resolution condemning the military regime’s systematic repression of Brazilian academics. As a result, the Brazilian government denied him a research visa to teach a seminar at UNICAMP in the summer of 1970. In the late 1970s and early 1980s – the *distensão/abertura* final stage of the military regime – Skidmore was granted visas to visit Brazil. Several times he visited our University of Brasília and lectured to students and faculty. In 1984, he participated in the *Roda Viva* TV interview program where he criticized the military government. As a result, when he reached Salvador he was taken to the Federal Police HQ where officers read the “Foreigners Law” to him and explained that any repetition of such comments would result in his expulsion from Brazil. These charges were later dropped after many academics, politicians and journalists came to his defense.

Later *Roda Viva* interviews can be viewed here:


[https://www.youtube.com/watch?v=M16Xz-l6E0c](https://www.youtube.com/watch?v=M16Xz-l6E0c)


[https://www.youtube.com/watch?v=HBR7DXT023Y](https://www.youtube.com/watch?v=HBR7DXT023Y)

While visiting one of his three sons in Chicago, their car was hit broadside by another car that ran a red light and Tom suffered serious injuries – broken hip, leg and arm and spent several weeks in hospital. As a result, his mobility was impaired and he was in a wheelchair and later used a cane.

Skidmore also published other important books on Brazil and Latin America ➔ *Black into White: Race and Nationality in Brazilian Thought (1870-1930)*, Oxford, 1974; *Brazil: Five Centuries of Change*, Oxford, 1999; *O Brasil Visto de Fora*, Paz e Terra, 2000. *Television, Politics,
Because he was suffering from Alzheimer’s disease, in 2009, Thomas Skidmore was transferred to an assisted care facility in Westerly, RI where he died on 11th June 2016 after suffering a heart attack on 9th June. He was 83.


1.2 – Dep. Eduardo Cunha

On Tuesday afternoon, 14th June, the Chamber Ethics Council decided (on an 11-to-9 vote) in favor of the *cassação* (expulsion) of Dep. Eduardo Cunha for lack of parliamentary decorum. In 2014, he lied to the Petrobras CPI that he did not have any bank accounts overseas. Later, it was discovered (via the *Lava Jato* investigation and bank account data released by authorities in Switzerland that – yes indeed Cunha had several Swiss bank accounts *BUT* he alleged that these were “trust funds” and not regular “bank accounts”. However, it was later discovered that his wife had spent (lavishly) from these accounts in Europe and the US. On 13th May, the Brazilian Central Bank levied a R$ 1 million fine on Eduardo Cunha and a R$ 130,000,00 fine on Ms. Cunha because of these undeclared overseas bank accounts.

It had been predicted that the vote would be a tie (10-to-10) and there were two “unpredictable” deputies on the Ethics Committee. In the case of a tie, the Council President would have cast the tie-breaking vote. Dep. Tia Eron (PRB-BA) had been very silent about her position and
was under very heavy pressures from both sides. Finally, she voted against Cunha and stated “Não mandam nessa nega aquil!”

However, the “surprising” (anti-Cunha) vote was cast by Dep. Wladimir Costa (SD-PA). Everyone had counted his vote as pro-Cunha – his party [Soledariedade] is very pro-Cunha. Apparently, he gave the impression that he continued “pro-Cunha” until he cast his vote against Cunha – probably to avoid being replaced by his party floor leader.

This case eventually will be voted on by the full Chamber – but Cunha can still appeal to the CCJ (Chamber Constitution & Justice Committee). The full Chamber can only expel Cunha by an absolute majority vote (257 deputies). Remember: On May 5th, the Supreme Court suspended Cunha from the Chamber Presidency and from exercising his mandate. This has been the longest cassação deliberation ever by the Chamber Ethics Council – because of a long series of machinations and manipulations by Cunha when he was Chamber President. The latter was considered “obstruction of justice” by the STF that determined his suspension Sine Die (no time limit).

Want more? Also on 14th May, a federal judge in Paraná ordered the legal blockage of all assets of Eduardo Cunha and his wife Claudia Cordeiro Cruz.

Even more? According to a survey of deputies from 21 of 27 parties in the Chamber (except those with three or less deputies), 273 deputies said they would vote the impeachment of Cunha – 16 votes above the necessary absolute majority.


1.3 – Lava Jato

Two PT “big fish” who have already been sentenced to prison terms by Judge Sérgio Moro in the Lava Jato investigation – José Dirceu (20 years and 10 months) and João Vaccari Neto (15 years and 4 months) have suggested to the PT that the party negotiate a “party leniency agreement”. However, the task force prosecutors are against this “artifice”.

In the plea bargaining testimony by executives of Odebrecht, the latter detailed conversations between their lawyers and then Justice Minister José Eduardo Cardozo regarding the appointment of a new judge at the STJ who would vote *habeas corpus* to release the construction firm executives imprisoned by the *Lava Jato* investigation and that Pres. Dilma had articulated with Marcelo Navarro Ribeiro Dantas to fulfill this task and he was duly appointed in August 2015. After his confirmation, Marcelo Navarro did vote in favor of *habeas corpus* for some of these executives but his solitary vote was over ridden by his peers on the STJ.


**Nuclear Submarine** [nothing is sacred] – Federal prosecutors are investigating the role of Odebrecht in Brazil’s nuclear submarine project. In 2008, then presidents Lula and Nicolas Sarkozy signed an cooperation agreement to build four conventional submarines and one nuclear submarine that was signed in 2009 ➔ 6.7 billion euros (R$ 25.9 billion) – the largest military contract in Brazilian history. The French DNCS state enterprise demanded that the Brazilian firm (Odebrecht) be designated as “partner” in this project (with no tendering) and build the submarine shipyard at Itaguaí, RJ (cost: R$ 6.6 billion). The model used to create Sete Brasil was used to create *Amazul*. The Federal Police suspect “irregularities” in this arrangement.

These “arrangements” created a negative reaction in Brazil because previously Brazil’s nuclear submarine project had been evolving with German cooperation (considered superior to the French technology. DNCS has been accused of using bribes to secure similar cooperation agreements with India and Malaysia.


Last week, the PGR requested that the STF issue an arrest warrant for former Senator José Sarney, Senator Romero Jucá and Senator Renan Calheiros. On 14th June, STF judge Teori Zavascki rejected this request but not the fourth name – Dep. Eduardo Cunha. Zavascki gave Cunha five days to respond to this request.

**Belo Monte** – STF Judge Edson Fachin decided to open an investigation regarding alleged bribes paid to Senators Renan Calheiros (PMDB-AL), Romero Jucá (PMDB-RR), Valdir Raupp (PMDB-RO) and Jader Barbalho (PMDB-PA). This investigation is based on the plea bargaining testimony by former senator Delcídio do Amaral who alleged that some R$ 30 million in bribes had been paid to the PT and PMDB by the firms involved in the construction of the Belo Monte hydro electric project. Then Minister of Mines & Energy, Sen. Edison Lobão (PMDB-MA) is also being investigated.

**Valdir Raupp** is also under investigation by the Federal Police regarding a R$ 500,000,00 bribe disguised as a campaign contribution (in 2010) from two construction firms – Queiroz Galvão and
Vital Engenharia Ambiental within the Petrolão bribe/corruption scandal. The Federal Police has requested his indictment and this case is now on the desk of STF Judge Teori Zavascki.

Sérgio Machado was president of Transpetro for 12 years (indicated by the PMDB) and the whole body of his plea bargaining testimony was released by the STF on 15th June. His son, Daniel Machado, also did plea bargaining testimony. It was discovered that his son, Daniel Machado, had maintained R$ 75 million in bribe funds in overseas bank accounts. Now Daniel is also giving plea bargaining testimony.

In his plea bargaining testimony (released by the STF on 15th June), Sérgio Machado cited twenty politicians from the PMDB, PT, DEM, PSDB, PCdoB and PP (see Photo Montage below) who had received bribe payments articulated by him from the construction firms cited in the Lava Jato investigation. Because the PMDB had maintained him as President of Transpetro, this party received the largest share of these funds ➞ R$ 100 million.


PhotoMontage Folha de São Paulo

Machado cited Vice-President Michel Temer (then the President of the PMDB) of having negotiating a R$ 1.5 million “contribution” in 2012 for the Mayor of SP campaign of Gabriel Chalita. Machado claimed that this “negotiation” with Temer took place in the military area of the Brasília airport. However – FAB-Brazilian Air Force checked its 2012 records and did not find any record of Machado entering his restricted area. He also accused the PSDB of having received a “large contribution” in 1998 to finance the reelection of FHC and the campaigns of PSDB candidates for deputy that helped then Dep. Aécio Neves (PSDB-MG) to be elected President of the Chamber of Deputies.

Renan Calheiros versus Rodrigo Janot ➞ On 15th June, the conflict between the Senate President and the PRG became “open warfare”. Renan declared that he had already received nine requests for the impeachment of Janot and had discarded five. He declared that Janot had extrapolated his powers by requesting the STF to issue arrest warrants against sitting senators – himself and Romero
Jucá [these requests were denied by STF Judge Teori Zavaski]. Renan said the Janot’s actions have compromised the “harmonious” relations among the three posers. He said he would decide (whether or not to accept one of the remaining impeachment requests by next Wednesday, 22nd June.

Immediately political analysts affirmed that “Renan had shot himself in the foot” by provoking the ire of ALL federal prosecutors who would now intensify their investigations against Renan.

The reaction by PMDB leaders who “disqualified” the accusations by Sérgio Machado were very primary and simplistic – very difficult for Brazilians to accept. Machado had been imposed on Petrobras to head Transpetro for 12 years and very obviously with the ”mission” to articulate funding for this party and its many candidates.


Janot reacted – On Thursday evening, 16th June, the PGR, Rodrigo Janot, requested the elimination of one of the nine investigations of Renan Calheiros involvement in the Lava Jato case – for lack of concrete evidence. In this case, Dep. Aníbal Gomes (PMDB-CE) was also accused.

Detail: If Renan is suspended (as in the case of Eduardo Cunha) the Senate Vice-President would take over and reign over the finalization of the impeachment process in the Senate. This Vice President is from the PT. If Renan is suspended, this probably would be after Dilma’s impeachment is finalized by the Senate in early August. In the case of Cunha, the STF suspended him some three weeks after the Chamber voted on impeachment (on 17th April).

Marcos Valério was the main operator of the Mensalão corruption case (2003-2005). He also was involved in the Mensalão mineira case in 1998 that was used to finance the unsuccessful reelection campaign of Gov. Eduardo Azeredo (PSDB). Marcos Valério has requested to begin plea bargaining testimony. In addition, he has considerable information regarding the Petrobras corruption/bribery scandal. This will be VERY bad news for Lula.

➔ Stay tuned!!!!

1.4 - Impeachment

The “grounds” for impeachment – accusations of “crimes of responsibility” were based on violations of the Fiscal Responsibility Law regarding Pres. Dilma’s accounts for 2014. She was accused of “covering up” a large deficit by “borrowing” funds from public banks (Bando do Brasil and CEF). These 2014 accounts were rejected by the TCU (external control) last year, but this decision has yet to be deliberated by Congress.

Now in mid-2016, the judgment of her 2015 accounts is being finalized by the TCU in June. The technical analysis by the TCU analysts found even worse violations (23 “irregularities”) of the Fiscal Responsibility Law in 2015 with a much larger deficit. This points to a probable rejection by the full TCU probably in late July. “Just in time” to complicate even more her situation in the Senate’s final judgment of her impeachment that probably will occur in early August.
The Temer government calculates that the Senate might have up to 61 votes in favor of impeachment ➔ two-thirds (54 votes) are necessary.

1.5 – Paraná Pesquisas – New Poll

A poll conducted by Paraná Pesquisas on 11-14 June among 2,004 voters in 24 states was released on 16th June. Regarding the question of whether the impeachment process against Pres. Dilma should be considered a “golpe”, 66.7% said “No” this is not a “golpe”, 29.5% answered “Yes”, this is a “golpe”, and 3.8% were DK/NR.

Regarding the current economic situation of Brazil, 33.2% said that with interim President Temer that the economy will improve, 44.6% said “No change”, and 19.3% said “Will get worse, and 2.8% were DK/NR.

1.6 – Bye-Bye Henrique Alves

On 16th June, interim President Michel Temer lost yet another cabinet minister – the third in 35 days. After being cited in the plea bargaining testimony by Sérgio Machado, Tourism Minister Henrique Eduardo Alves (PMDB-RN) resigned his position. Machado affirmed that he had articulated a R$ 1.55 million contribution for Alves’ campaign for governor of Rio Grande do Norte in 2014. In spite of this “contribution” Alves lost the election. At that time, Alves considered this “contribution” to be “very small”. Apparently, the main reason for Alves’ resignation was that prosecutors have discovered that he has a “secret” bank account in Switzerland.

Alves is the third Temer cabinet Minister to exit due to corruption accusations. The first was Planning Minister Sen. Romero Jucá (PMDB-RR) and the second was the Minister of Transparency, Monitoring and Control, Fabiano Silveira. Both were included in the audio recordings made by Sérgio Machado in support of his plea bargaining effort.

1.7 – More women

Interim President Temer continues to appoint more women to the second echelon of his team. On Tuesday, he appointed economist Elena Landau as President of Eletrobras. During the presidency of Fernando H. Cardoso, she headed the National Program for the sale of State Enterprises. Thus, it is expected that she will begin privatizations there – the sale of energy distributors (Eletrobras assets) – in an effort to balance Eletrobras' deficits.

2 – FOREIGN RELATIONS & TRADE

Nothing this week.
3 - REFORMS

3.1 – PEC to cap expenditures

This week the Temer government proposed a constitutional amendment (PEC) that would “cap” investments and any increases YoY would be indexed to the IPCA of the previous year and this cap would be applied for 20 years. The duration is the main question. Some would like ten years, others seven years. Others say nine years and then revisions. This was the principal problem of the Dilma government. When he presented this proposal, Finance Minister Meirelles affirmed that between 2008 and 2015, tax revenues increased by 17% but expenditures expanded by 50%. Apparently, this “cap” would impact the Public Health and Education areas.

4 – PRIVATIZATION & REGULATION

4.1 – Concession auctions

On 16th June, the interim Temer government (Secretary-General of PPI-Priority Program for Investments) announced that 13 concession auctions are planned (4 airports, 4 federal highway segments, 3 port terminals and 2 railroad segments). The auctions of four airports (Porto Alegre, Florianópolis, Salvador and Fortaleza) had already been announced by the Dilma government. However, only two concession auctions are “liberated” to be conducted 1) the port passenger terminal in Recife (auction in August), and 2) BR-364/060 in MT and GO (already approved by the TCU).

5 - ECONOMICS

5.1 – Ipiranga acquired Ale

On Sunday, 12th June, the Ultra Group, controller of Ipiranga (retail gas stations) signed an agreement to acquire Ale for R$ 2.168 billion. Ale had some 2,000 gas stations and Ipiranga with 7,241 stations. Thus, Ipiranga now has 18% of the retail market – very close to the leader – Petrobras with 19.4%. Ale has a R$ 737 million that will be deducted from the sale price.

5.2 – April Retail Sales rebound

On 14th June, IBGE announced that in April retail sales had increased by +0.5% MoM, but -6.7% YoY. This was the largest April variation since +0.7% was posted in 2013. The January-April 2016 period accumulated a decline of -6.9%. Supermarket sales were up by +1.0% versus -1.4% in March.
5.3 – Jaguar Land Rover to open factory in Rio

On 20th June, Land Rover opened its first wholly owned factory outside of the UK in Itatiaia, RJ – at a cost of 240 million pounds. This UK-based group has an operation in China, an assembly unit in India and has a 1 billion planned plant for Slovakia. JLR said it was “just following its markets”. In 2015, overseas sales reached 500,000 units. The new Itatiaia plant will employ 300 workers and produce 12,000 units per year, expandable to 24,000. This plant will manufacture two models that sell well in Brazil – the Range Rover Evoque and the Land Rover Discovery Sport. Currently, Land Rover has a 30% share for midsized premium SUV market.

5.4 – IBC-Br ➔ +0.03%

For the first time in 15 months the Central Bank reported a positive IBC-Br (Index of Economic Activity) in April ➔ +0.03% MoM; but -5.75% YoY. The 12-month accumulation of the IBC-Br is now -5.35%. Remember: IBGE reported that Brazil's GDP retracted by -0.3% in 1st Q/2016. Financial analysts had predicted an increase of +0.30%.

5.5 – Tax evasion versus deficit

Prosecutors at the Finance Ministry compiled a list of 135 persons and businesses accused of tax evasion ➔ R$ 272.1 billion!! If these funds could be recovered, this amount would “cover” the projected R$ 170 billion budget deficit in 2016 with R$ 100 billion “left over” for 2017. The industrial sector accounts for 27.4% of this tax evasion followed by the retail sector (R$ 23.59%). The state of SP accounts for 41.85% of these debts and RJ with 16.71%.

5.6 – Declining tax revenues

Using preliminary numbers from the SRF, researchers at the Ibre/FGV concluded that federal tax revenues will decline by -8.00% in May (YoY). This is the fifth consecutive decline in 2016 ➔ January (-6.71%), February (-8.71%), March (-8.18%), April (-7.91%) and May (-8.00%).

On 17th June, the SRF released the official tax data for May ➔ R$ 95.219 billion (-4.81% YoY) – the worst May result since 2010. The January-May accumulation is now -7.36%.

5.7 – Solar Power

Canadian Power announced that it would invest R$ 2.3 billion to install projects of around 400 MW in a production line at a Flextronics factory in Sorocaba, SP.