Brazil Focus –
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Weekly Report
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Looking Ahead ➔ What to watch for?

- 20th Nov. -- Zumbi Day – Afro-Brazilian Consciousness Day [holiday in some cities]
- 21st Nov. -- Labor Ministry – Caged data, new jobs created in October
- 21st Nov. -- IBGE to post IPCA-15
- 21st Nov. -- IBGE to post PME unemployment data for October,
- 22-23 Nov. -- 195th Meeting (last in 2016) of Copom ➔ Selic rate
- 23rd Nov. -- OECD Education Ratings, Brazil ranked ___
- 28th Nov. -- FGV to post November IGP-M ➔
- 29th Nov. -- Public Account data for October
- 30th Nov. -- IBGE to release GDP data for 3rd Q /2016
- 1st Dec. -- World Anti-AIDS day
- 1st Dec. -- Trade Balance data for November
- 2nd Dec. -- Fenabrave ➔ November auto sales
- 5th Dec. -- IBGE to announce Industrial Production for October
- 8th Dec. -- IBGE to post IPCA data for November ➔
1 - POLITICS

1.1 – Lava Jato

1.1.1 – Chamber reporter “retreats”

On 14th November, two federal prosecutors – Lava Jato prosecutor Deltran Dallagnol and the President of ANPR-National Assoc. of Federal Prosecutors José Robalinho Cavalcanti – met with Dep. Onyx Lorenzoni (DEM-RS) and convinced him to remove the item that he had inserted into the popular initiative draft law mobilized by prosecutors and other civil society groups that proposed TEN measures to reduce corruption in Brazil. The item that Lorenzoni had “added” (inserted) would allow prosecutors and judges to be tried for “crimes of responsibility” because of their actions and decisions. Currently, the maximum penalty for judges and prosecutors is loss of job and prohibition from returning to any public service job.

1.1.2 - Lava Jato returned R$ 204 million to Petrobras

On 18th November, Federal Prosecutors announced that they were able to return R$ 204.281.741,92 to Petrobras in funds recovered via collaboration and eminency agreements. Lobbyist Hamyldon Pereira Padilha returned the largest amount – R$ 56.436.661,43 that was being held by the 13th Federal Circuit court in Rio. This was the third and largest return amount. The total is now approximately R$ 500 million.


1.2 – Corruption in Rio

1.2.1 – Operation Chequinho

On 15th November, former Rio governor – Anthony Garotinho – was arrested in Rio accused of “obstruction of justice” (his attempts to coerce witnesses and destroy documents related to his corruption scheme in the city of Campos dos Goytacazes that impacted on the October 2016 municipal elections). According to the investigations, Garotinho more than doubled the number of families enrolled in the Cheque Cidadão [Citizen Check – R$ 200,00 per month] assistance program (11,000 ➔...
29,000) in mid-2016 to enhance the election of his wife as Mayor and allies to the city council. Allegedly, 34 city council candidates were benefitted by this program and 11 were elected.

Garotinho was imprisoned at the Federal Police lockup in Rio and on 16th November the TRE-Rio denied a habeas corpus filed by Garotinho’s lawyers. That same day he was transferred to the Souza Aguiar hospital because of high blood pressure. Then the lawyers tried to convince the judge to allow his transfer to a private hospital. His lawyers appealed to the TSE but again the habeas corpus was denied. Instead, the TRE-RJ judge ordered his transfer to the Bangu prison in Rio. Detail: Former Rio Governor Sérgio Cabral (See Item 1.2.2) was also remanded to Bangu. Garotinho tried to physically resist his transfer to Bangu by ambulance, but Federal Police Officers “restrained” him as his daughter and wife screamed “He is not a thief; I want to ride with him in the ambulance”.

On 18th November, an audio was leaked where Garotinho told the Federal Police that if he was sent to the Bangu Prison he would be murdered and that he was ready to do plea bargaining testimony that would identify the others involved in these corrupt practices.

Anthony Garotinho entered politics via the PDT with Leonel Brizola and was elected governor in 1994 and 1998. He switched to the PSB and in 2002 placed third in that presidential election – and elected his wife Rosinha Matheus as governor. In 2006, the Garotinho couple returned to Campos and got elected several times as Mayor. In 2010, Garotinho was elected PR federal deputy with a record 700,000 votes. His daughter, federal deputy Clarissa Garotinho (PR-RJ) is currently at risk of being expelled from the PR because she voted against PEC 241.

1.2.2 – Operation Calicute

On 17th November, the Federal Police carried out Operation Calicute in the state of Rio, targeting former PMDB Governor Sérgio Cabral who is accused of organizing a bribe extraction scheme called an “Oxygen Tax”. Thus, this operation was also dubbed “O2”. Court issued arrest warrants included Cabral and his then State Secretary of Public Works – Hudson Braga. This O2 tax was 1% on all public works contracts and Cabral received 5% himself. Other arrest warrants included Cabral’s former Secretary of Government, Wilson Carlos, and intermediaries Carlos Emanuel Miranda and Luiz Carlos Bezerra. Money changer Adir Assad was also accused but he had been imprisoned in an earlier operation.

The name of this operation refers to the East African port city of “Calicut” where after discovering Brazil Pedro Álvares Cabral established a Portuguese trading outpost (to negotiate Asian
“specialties”, such as cinnamon, pepper, etc., that were much valued in Europe). A battle ensued where Cabral’s expedition was attacked by Muslim traders, 600 of whom were captured and burned alive. Always to “make a joke”, Brazilians now say “Cabral was discovered after 516 years”.

These bribes were distributed by the contracted firms on a monthly basis (monthly allowance) – Andrade Gutierrez (R$350,000,00) and Carioca Engenharia (R$ 500,000,00) – either through third party false consulting contracts or by direct payments in cash. Hudson Braga used José Orlando Rabelo and Wagner Jordão as intermediaries to “collect” the “O2 Tax). Federal Prosecutors estimate that a total of R$ 220 million was extracted by this O2 scheme.

Investigators allege that Cabral’s wife, Adriana Ancelmo spent some R$ 57,000,00 of these bribes to acquire six luxurious dresses.

This was a heavy blow to the PMDB in the state of Rio. The current governor Luiz Fernando Pezão (who returned to his post on 1st Nov. after a long cancer treatment) was “shocked” by Cabral’s arrest (his political mentor). Before being elected in his own right in 2014, Pezão was Cabral’s Vice-Governor.

This Federal Police operation resulted from plea bargaining testimony by executives of Andrade Gutierrez and Carioca Engenharia. This testimony revealed involvement of Pezão in the three huge construction contracts investigated, but did not show any direct participation by Pezão in the “O2” bribe scheme. Pezão was secretary of Public Works (2007-2011). When Pezão assumed the post of Coordinator of Infrastructure, Braga became the Secretary for Public Works. When Pezão was elected governor in 2014, Braga was to become his Casa Civil Chief, but they had some “misunderstandings”.

Concern ➔ The Michel Temer government is “concerned” after the arrest of ex-Governor Sérgio Cabral (PMDB). Apparently, the focus on the PT by the Lava Jato investigation has now declined and the new phases are targeting the PMDB, PSDB, DEM PSB and other parties in the Temer support coalition – and may involve other ex-governors and even some current state governors. The national PMDB President Sen. Romero Jucá (RR) said that “the arrest of Cabral in Rio does not affect the PMDB”.

The Brazilian press quickly remembered the “contrasts” between Sérgio Cabral Sr. (journalist and composer) who was arrested by the military regime when he was an editor of the satirical tabloid Pasquim and his son Sérgio Cabral Filho (corrupt ex-governor who was arrested for massive corruption).
The courts have “frozen” [blocked] R$ 10 million of Cabral’s assets and another R$ 11 million related to bribes from Comperj.

1.2.3 – Operation Miquéias

This operation investigated the plundering some R$ 50 million from the pension funds of municipal governments in 9 states and the DF that began in 2013. On 17th November, Federal Judge Ricardo Augusto Soares Leite of the 10th circuit in Brasilia issued arrest warrants for the largest money changer in Brasília, Fayed Antoine Traboulsi plus two others under investigation, Marcelo Toledo Watson (a civil police officer) & Carlos Eduardo da Rocha Marzola – for obstruction of justice (witness tampering and destruction of evidence). They are part of a larger group of 43 persons accused by federal prosecutors.

1.3 – José Sarney’s niece murdered in São Luis

The grand niece of former President José Sarney, Mariana Menezes de Araújo Costa Pinto (age 33) was murdered in São Luis on Sunday, 13th November. The police arrested the prime suspect (her brother-in-law) – Lucas Leite Ribeiro Porto (age 37). Apparently, he tried to choke her to death with his bare hands but then had to resort to a pillow. Lucas Porto’s image was captured on the video cameras in the apartment building where Mariana lived. No motive was revealed.

See ➔ http://g1.globo.com/ma/maranhao/noticia/2016/11/corpo-de-sobrinha-neta-de-sarney-e-sepultado-em-sao-luis.html

1.4 – Belo Monte Cartel

On 16 November, CADE (Brazil’s anti-trust agency) opened a formal inquest to investigate the plea bargaining testimony by Andrade Gutierrez and subsequent leniency agreement regarding the formation of a cartel by large construction to divide up the construction of the Belo Monte hydro electric power dam.

The CADE agreement was concluded with A-G in September 2016, but was maintained in secrecy so as not to prejudice the investigations. Reportedly, this “collusion” between A-G, Mendes Junior and Odebrecht began back in the 1970s when this power dam project was discussed. These three firms financed the viability studies for this project.

When the Lula government decided to construct this dam in 2009, the order was for these three firms to “divide up” the public works. However, another firm – Norte Energia – won out in the bidding process and later Norte Energia sub-contracted these three firms to carry out the construction in July 2011. An audit by the TCU detected a R$ 3 billion cost over run on this project.

In May, 2016, A-G negotiated a leniency agreement with federal prosecutors in Paraná

1.5 – “Occupy” the Chamber
On Wednesday, 16\textsuperscript{th} November, a group of some 100 right wing militants broke the glass doors, invaded the plenary of the Chamber of Deputies and occupied the presiding officers’ podium while they read their (some 30) demands. They demanded a military intervention to “clean up Congress” and wipe out all corruption, the elimination of “leftist political parties”, the reduction of the number of Senators (to 40), the end of the \textit{Foro Previilegiado}, reduction of the penal age to 14, and the defense of niobium (a rare metal abundant in Brasil).


See [https://www.youtube.com/watch?v=9DF6krW4dDk](https://www.youtube.com/watch?v=9DF6krW4dDk)

Photo: Lúcio Bernardo Jr./Câmara dos Deputados

Militants “occupy” Chamber

Right-wing Militants occupy Chamber

1.6 – Dep. Rodrigo Maia ➔ Vatican

On the evening of 17\textsuperscript{th} November, Chamber President Dep. Rodrigo Maia (DEM-RJ) embarked on a trip to Rome with his wife and six other deputies – Baleia Rossi (PMDB-SP), Antonio Imbassahy (PSDB-BA), Osmar Serraglio (PMDB-PR), Heráclito Fortes (PSB-PI), Mário Heringer (PDT-MG) and Hugo Motta (PMDB-PB), to the ceremony that will induct the Archbishop of Brasília, Dom Sérgio da Rocha, into the College of Cardinals at the Vatican – one of the 17 new cardinals selected by Pope Francisco I on 19\textsuperscript{th} November.

The Chamber of Deputies explained that the expenses of Maia’s wife and the wives of three other deputies would not be covered by the Chamber. This entourage of Brazilian deputies will have a special encounter with Pope Francisco on 19\textsuperscript{th} November.

1.7 – Sen. Jucá ➔ Gov’t. floor leader in Congress

On 17\textsuperscript{th} November, Pres. Temer officially named Sen. Romero Jucá (PMDB-RR) to be government floor leader in Congress, replacing Sen. Rose de Freitas (PMDB-ES). Jucá was named Planning Minister by Temer when he became interim President on 12\textsuperscript{th} May when then Pres. Dilma Rousseff was suspended for 180 days while the Senate deliberated the final stage of her impeachment. However, Jucá resigned three days later when audio recordings surfaced showing that he was articulating against the \textit{Lava Jato} investigation. Sen. Rose de Freitas created certain “consternation”
with Temer and his team when on 4\textsuperscript{th} October she described the “complications” of being government floor leader in Congress.

\section*{2 – FOREIGN RELATIONS & TRADE}

\subsection*{2.1 – A conversation with Pedro Parente}

On Wednesday, 16\textsuperscript{th} November, the Brazil Institute at the Woodrow Wilson Center in Washington, DC sponsored a presentation (followed by (Q&A) with Petrobras President Pedro Parente. He had been a key figure in the Cardoso government (1995-2002) and acted as an effective “trouble shooter” during the electricity “blackout” in 2002.

His evaluation of the Petrobras corruption scheme episode was that the firm was the “victim” of a mammoth financial destruction (rip off) operation and described how the new (apolitical) management team is trying to put Brazil's largest state enterprise back on track.


See\url{https://www.wilsoncenter.org/event/conversation-pedro-parente-president-and-ceo-petrobras}


\section*{3 - REFORMS}

Nothing this week.

\section*{4 – PRIVATIZATION & REGULATION}

Nothing this week.

\section*{5 - ECONOMICS}

\subsection*{5.1 – September IBC-Br}

On Thursday, 17\textsuperscript{th} November, the Central Bank released its Economic Activity Index (IBC-Br) for the month of September. After a -1.01\% MoM decline in August, the IBC-Br “rebounded” with a +0.15\% MoM “advance” in September (and -3.44\% YoY). This result was below the median forecast of +0.20\% by 34 financial market analysts (between -0.50\% and +0.70\%) surveyed by the Estad\~{a}o. The estimate by the specialists surveyed by Reuters was also +0.20\%. The 12-month accumulation of the IBC-Br is now -5.42\%.
The IBC-Br is considered a “preview” of GDP. IBGE should release the September (and 3rd Q/2016 GDP data on 30th November). The Central Bank data showed that the IBC-Br had declined by -0.78% in 3rd Q/2016 versus -0.42% in 2nd Q/2016.

**Detail:** On 17th November, IBGE revised its 2014 GDP figure from +0.1% to +0.5%.

### 5.2 – Retail sales & services decline

In September, retail sales declined by -1.0% -- the worst result in 14 years. The services sector also declined – by -0.3%

### 5.3 – Embraer ➔ United Airlines

On 15th November, Embraer announced that it had reached an agreement with United Airlines for the sale of 24 model E-175 passenger planes for US$ 1.08 billion. This plane serves the 70 to 120 seat segment of the market. This “sale” was a transfer of a 24-plane agreement reached with Republic Airways Holding before this firm filed for bankruptcy in February 2016.

### 5.4 – Petrobras sells Liquigás

On 17th November, the Administrative Council of Petrobras approved the sale of the Petrobras subsidiary Liquigás Distribuidora to Ultragaz for R$ 2.8 billion. Ultragaz is one of the firms in the Grupo Ultra that is also the owner of the Ipiranga retail gas station chain. Liquigás bottles LPG and has a network of distribution of gas to homes and restaurants with a network of some 4,800 authorized sale points. This sale is part of a US$ 15.1 billion disinvestment program in 2015 and 2016 (now 65% complete). This program will continue in 2017 and 2018 and Petrobras estimates another US$ 19.5 billion from these sales.