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

• 19-20 Nov. – 21 Nations attend APEC meeting in Lima Peru
• 20th Nov. -- Zumbi Day – Afro-Brazilian Consciousness Day [holiday in some cities]
• 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 ➔
• 14th Dec. – Ex-Pres. Dilma Rousseff ➔ 68th birthday
• 14th Dec. -- Mercosur Summit to meet in ________
- 16th Dec. -- IBGE to announce retail sales for October
- 16th Dec. -- IBGE to announce PME unemployment data for October
- 22nd Dec. -- Deadline for Congress to adjourn
- 25th Dec. -- Christmas Day [national holiday]
- 30th Dec. -- FGV to post December IGP-M
- 30th Dec. -- Public Account data for November
- 30th Dec. -- FGV to post December IGP-M

1 - POLITICS

1.1 – Temer replaced Minister of Culture

On Friday, 18th November, Pres. Temer replaced the Minister of Culture, Marcelo Calero, with Dep. Roberto Freire (PPS-SP). According to Calero, he was replaced because of intense pressures from the Minister of Government, Geddel Vieira Lima (PMDN-BA) to determine that Iphan (Inst. for Preservation of Historical Patrimony) approve a construction project in Salvador. Because Calero repeatedly resisted these pressures he was dismissed. Now, perhaps, the new Minister of Culture will attend Geddel's demand.

1.1.1 – New Minister of Culture

The new Minister of Culture, Dep. Roberto Freire (PPS-SP) was sworn in on Wednesday, 23rd November. Freire, the National President of the PPS, replaced career Brazilian diplomat Marcelo Calero who resigned – alleging that he had suffered severe pressures from Pres. Temer’s Secretary of Government, Geddel Vieira Lima (PMDB-BA), to “force” IPHAN to liberate the construction of a building in Salvador that Iphan claimed would “disrupt the area’s cultural heritage/patrimony”. Freire has said that he as Minister of Culture would maintain IPHAN’s decision.

Photo: Pedro Ladeira/Folhapress

Minister Geddel Vieira Lima
However, the Presidential Public Ethics Commission has now decided to investigate the “ethics” of these “pressures” by Geddel because he has close relations with the person who heads this construction project. One of the members of this “Ethics Council”, José Saraiva, resigned – his appointment was “suggested” by Geddel in early September and Saraiva is the lawyer of Ademi-Associação de Dirigentes de Empresas do Mercado Imobiliário (Association of Construction Firms) in Bahia. One of the firms in Ademi is Cosbat that owns La Vue Ladeira da Barra in Salvador where Geddel purchased an apartment. Saraiva acts as a lawyer for DEM and the PSDB. This Ethics Council should decide this case at its 14th December meeting.

Want more? Geddel’s cousin and nephew are lawyers who represent La Vue against Iphan.

So far, Temer has decided to maintain Geddel in his post. He is considered part of the “hard nucleus” (inner circle) of supporters in the Temer government – but many thinks that Geddel’s days in the cabinet “are numbered”.

Still more? On 23rd November, a federal judge in Salvador, Roberta Dias dos Nascimento Gaudenzi ordered an immediate halt (suspension) of the construction of the apartment building in question in answer to a suit filed by the IAB-Inst. of Brazilian Architects

Even more? On 24th November, the Folha de São Paulo published a story detailing the testimony by the ex-Minister of Culture, Marcelo Calero, to the Federal Police on 19th November where he detailed how he was summoned for an encounter with Pres. Temer on 17th November. Temer explained that the negative decision by Iphan was creating “difficulties” for his Secretary of Government, Geddel Vieira Lima, and that perhaps Calero could find a solution. If not, the President said that he would then ask the AGU to find a solution. Temer also explained to Calero that “Politics always has these difficulties”. That same day, the PGR asked the STF to open an investigation of Geddel.

Finally ➔ On Friday, 25th November, after some ten days of polemics and accusations back and forth (that began to involve Pres. Temer’s Chief of the Casa Civil, Eliseu Padilha), Geddel resigned his post as Secretary of Government (political coordinator) in the Temer government. This was the sixth cabinet minister that Pres. Temer has “lost”. Reportedly, Pres. Temer asked Geddel to resign.

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Photo: Alan Marques/Folhapress

Pres. Temer, Eliseu Padilha & Geddel V. Lima
Detail: Following the modus operandi of many previous scandals in Brazil, Marcelo Calero secretly recorded his conversations with Temer, Geddel and Padilha and delivered same to the Federal Police during his testimony.

1.2 – Lava Jato

1.2.1 - Garotinho

Last week, Brazil Focus reported on the arrest and imprisonment of former governor Anthony Garotinho. On Saturday, 19th November, federal prosecutors revealed that at the time of his arrest (Wednesday, 16th November), Garotinho (and his son Wladimir Matheus) offered a R$ 5 million “bribe” to avoid being arrested. This bribe attempt was offered to election judge Glaucenir Silva de Oliveira of the 100th election court in Campos, RJ.

![Clarissa & Anthony Garotinho]

The TSE determined that Garotinho be transferred from the Bangu prison to the Quinta D’Or hospital on 20th November for further tests and exams, plus a “cardiac procedure” (a stent was placed in a coronary artery). On 22nd November, he was released from hospital and remanded to house arrest at his apartment in the Flamengo neighborhood in Rio. However, Federal Police agents will visit his Rio apartment here times a day (at unannounced times) to verify that he is complying with the TSE judge’s orders.

On Monday, 21st November, the Executive Committee of the PR decided to expel Federal Deputy Clarissa Garotinho (RJ) from the party based on a report by the PR Ethics Council – because she voted against PEC 241 (that would place a cap on federal expenditures) – after the PR had “closed the question” that all PR deputies should by obligation vote in favor of this PEC. In addition, she made a very incisive speech against PEC 241. Apparently, this action is an attempt to get Anthony Garotinho (who previously had been the PR floor leader in the Chamber to resign. If not, he probably would also be expelled.

Garotinho “free” – On 24th November, on a 6-to-1 vote confirmed that Garotinho should be released to the status of “house arrest” but would have to post bail of R$ 88,000,00 (q00 minimum wages).

1.2.2 – Sérgio Cabral
As reported last week, former RJ governor Sérgio Cabral (PMDB) was arrested and imprisoned because of a massive bribe scandal that federal prosecutors uncovered. Now, these same prosecutors have requested that his wife Adriana Ancelmo also be arrested because her “consulting”/law office [Ancelmo Advogados] apparently had been used to help “launder” these illicit funds. The court ordered that R$ 11 million be frozen from her bank accounts.

Cabral tried to “boost” this case up to the STJ by trying to implicate (involve) RJ Governor Luiz Fernando Pezão in this corruption scheme – to no avail. Also, prosecutors discovered that Cabral and his “associates” had acquired fixed phone lines under false names in an effort to avoid court ordered wire taps.

1.2.3 – Dep. Eduardo da Fonte (PP-PE)

In June 2016, the PGR accused Dep. Eduardo da Fonte (PP-PE) of participating in an intermediation scheme to receive R$ 10 million from former Petrobras director Paulo Roberto Costa who had been “indicated” for this directorship by the PP. This bribe payment was to persuade then Senator Sérgio Guerra (PSDB-PE) to obstruct the CPI on Petrobras in the Senate. According to the PGR, this payment was “extracted” from the Queiroz Galvão construction firm, one of the principal firms involved in the construction of the Petrobras Abreu e Lima refinery in Pernambuco. The PGR substantiated these accusations from the plea bargaining testimony by Paulo Roberto Costa and lobbyist Fernando Baiano.

On 22nd November, STF judge Teori Zavascki reported in favor of opening an inquest against da Fonte to the second STF working group, but was tabled when judge Dias Toffoli pediu vistas (asked for time to study the case further).

1.2.4 – Spanish police detained Rodrigo Tacla Duran

At the request of the Brazilian Federal Police and an Interpol arrest warrant, last week the Spanish police detained Rodrigo Tacla Duran soon after he arrived from the US where he had been hiding out to avoid arrest. He is a “corporate lawyer” considered the “Financial Mastermind” of the Petrobras bribe/corruption scandal. Brazil has already filed an extradition request with Spain where he holds dual citizenship. Brazilian prosecutors allege that Duran and his associates created sophisticated money laundering mechanisms with offshore front companies and bank accounts in lieu of fake contracts.

1.3 – Senate deliberates PEC 10/2013

On 23rd November, the Senate CCJ began deliberating PEC 10/2013 that would end the Foro Previlegiado whereby deputies, senators, ministers, etc. can only be judged by the Supreme Court. If Congress approves this PEC, these politicians would then be subject to being tried by first level state or federal courts.
The press has questioned the composition of the Senate CCJ that is deliberating this PEC of the 27 Senators on the CCJ, 11 have cases before the STF awaiting judgment. Senate President Renan Calheiros (PMDB-AL) has 9 such cases at the STF.

The author of this PEC, Sen. Alvaro Dias (PV-PR) affirms that there is no reason to “shield” senators and deputies who have committed “common crimes”.

1.4 – R$ 5.2 billion from “repatriation” → state governments

After a five-hour meeting with state governors on 22nd November, Pres. Temer announced that part (R$ 5.2 billion) of the funds from the repatriation (legalization) of funds held by Brazilians overseas would be made available to the states to help resolve their fiscal (deficit) crises. In return (counterpart) the states should enact austerity measures including reforms of their respective pension systems for state employees. Also, the governors promised support (pressures on their federal deputies) to approve the social security reform to be proposed by the federal government in December. The Ministers of Finance and of Planning, plus the Presidents of the Chamber and Senate participated in this meeting.


1.4.1 - Rio Grande do Sul → Austerity

On Monday, 21st November, Rio Grande do Sul Gov. José Ivo Sartori (PMDB) announced a set of harsh austerity measures in an attempt to balance the state’s accounts: 1) Reduction of 11 units in the state bureaucracy – three state secretariats (state cabinet) abolished; nine state public foundations; one state owned company; and one state autarky; and 2) between 1,100 and 1,200 state employees will be dismissed. These measures must be approved by the state legislature and would save some R$ 146.9 million per month. Currently, the state fiscal deficit is R$ 2.359 billion. Without these measures, this deficit would be R$ 5.194 billion in 2017 and R$ 6.822 billion in 2018. In addition, four state owned companies might be federalized (or privatized) → CEEE-State Electricity Distribution; CRM-State Mining Company; Sulgas-State LPG Distribution Company; and CESA-State Company for Silos and Storage (of grains).

1.5 – STJ suspended Pimentel vote by AL-MG

On Friday, 18th November, STJ judge Herman Benjamin accepted the “complaint” of three MG state deputies – Gustavo Valadares (PSDB), Gustavo Corrêa (DEM), and Sargento Rodrigues (PDT) – who affirmed that the AL-MG President Dep. Adalcever Lopes (PMDB) and the First Secretary Ulysses Gomes (PT) had set the date for the vote on whether the STJ should open a corruption investigation of Gov. Fernando Pimentel (PT) for Monday, 21st November because they had not distributed the full dossier of documents (the MPF and Federal Police investigations) regarding the accusations against Pimentel to all the state deputies. Judge Benjamin gave the AL-MG five days to correct this “omission”.

On 5th October, the STJ decided that it could only open a penal investigation against the governor with the approval of the AL-MG and gave the state assembly 30 days to make this decision.
1.6 – Election Court annulled reelection Mayor of Belém

On 22nd November, Belém election judge Claudio von Lohrmann Cruz decided to annul [cassar] the reelection of the Mayor of Belém, Zenaldo Coutinho (PSDB) because of alleged “abuse of economic power” in his election propaganda, the use of public funds in his propaganda and election propaganda before the legal date specified by the TSE. This decision will be appealed the TRE-PA and the TSE.

1.7 – STF set 1st December to decide case against Renan Calheiros

On 1st December the full Supreme Court will decide whether to install a criminal case against Senate President Renan Calheiros (PMDB-AL). This case (just one of the 12 accusations against Calheiros before the STF) remotes from 2007 and the formal accusation by the PGR was taken to the STF in 2013. The PGR denounced Renan for using funds supplied by a construction firm to pay alimony support for the child he fathered out of wedlock with TV Globo journalist Mônica Veloso between January 2003 and December 2006. If convicted by the STF, Calheiros could face a prison term between 5 and 23 years in addition to a fine.

When this case came to light in 2007, it was considered a “lack of parliamentary decorum” and Calheiros was almost cassado (expelled from the Senate). At the time he was Senate President and resigned this post to avoid losing his mandate. In 2013 and 2015, he again was elected Senate President.

1.8 – Brazil’s illiteracy rate declined in 2015

According to IBGE’s national PNAD survey for 2015, Brazil’s illiteracy rate for persons over age 15 --- from 8.3% in 2014 to 8.0% in 2015 – from 13.2 million to 12.9 million but the literacy rate (92.0%) fell short of Brazil’s target for 2015 (93.5%).

2 – FOREIGN RELATIONS & TRADE

Nothing this week.

3 - REFORMS

3.1 – Senate approved political reform

On 23rd November, the Senate approved the political reform PEC that would prohibit coalitions in proportional elections (deputies and city councils) and impose a threshold barrier for parties. The second round vote was 63-to-9. The nine votes came from the “small” parties (PCdoB, Rede & PSOL) plus the PT. The threshold barrier would be 2% of the valid [national] vote and 3% of the valid vote in at least 14 states (half of the 27 states) – as of 2018. In the 2022 elections the barrier would increase to
3%. Only parties that surpass this barrier would be able to receive resources from the national party fund and have access to “free” propaganda time on radio/TV. For the small/micro parties to avoid the penalties of the threshold barrier, they could either merge with other parties or form a “federation” of parties (like a coalition) but this federation would have to hang together as a bloc in the Chamber for the four-year legislative session.

If this reform is approved by the Chamber, it could substantially reduce the number of parties in Congress. Currently, Brazil has 32 parties officially recognized by the TSE and 28 with representation in Congress, while another 40 await approval by the TSE.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Banco do Brasil – austerity measures

On 21st November, the Banco do Brasil announced that in early 2017 it would close 402 branch offices in Brasil (that have only 2.5% of BB operations), and would stimulate a voluntary resignation program for 18,000 employees. These measures should save some R$ 3.8 billion in 2017. In 3rd Q/2016, BB profits were down to R$2.25 billion.

5.2 – IPCA-15

On 23rd November, IBGE released data for the IPCA-15 → +0.26% and accumulated +6.38% in 2016 and +7.64% for the 12-month period. This was the lowest November rate since +0.23% posted in 2007.

5.3 – Caged → 74,700 jobs lost

On 24th November, the Ministry of Labor released the Caged employment data for the month of October → 74,700 net jobs lost. This was the 19th consecutive month with net jobs lost. The ten-month accumulation was 751,800 jobs lost, slightly less than for the same period in 2015 → 818,900. The 12-month accumulation was 1.5 million jobs lost. The commerce was the only sector that had a net creation of new jobs in October → 12,400 new jobs created.

5.4 – Unemployment in 2015

On 25th November, IBGE published a report finalizing the unemployment data for 2015 → 9.6%, – an increase of 2.8 million unemployed vis-à-vis 2014 (+38.1%). Regionally, the greatest increase was in the South (+66.1%) and the smallest increase was in the North (17.9%).
5.5 – Federal Revenues increase in October

With the “repatriation” of funds held by Brazilians overseas, in October the SRF posted federal revenues at R$ 148.7 billion (+33.15% YoY) – the best October result on record and the best monthly result since January 2014 (R$153.2 billion). **Detail:** These funds held overseas by Brazilians were not “repatriated” *in si* – but rather these funds were “legalized”. Thus, the funds garnered by the SRF were a 15% tax and a 15% fine.

5.6 – Income inequality

On 25th November, IBGE released data regarding income inequality in 2015 during one of Brazil’s worst economic recessions in recent years. There was a reduction in income inequality because all income brackets (social classes) suffered reductions. Average monthly incomes were down by -5.4% --- R$ 1.845 ➔ R$ 1.746 --- between 2014 and 2015. The GINI index declined slightly --- 0.497 ➔ 0.491.