Brazil Focus –
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Weekly Report
Jan. 21-27 2017

Looking Ahead ➔ What to watch for?

- 30th Jan. -- FGV: January IGP-M ➔ + %
- 30th Jan. -- IBGE ➔ December PME unemployment %; average of % in 2016
- 30th Jan. -- Public Account data for December 2016
- 31st Jan. -- Social Security (INSS) deficit in 2016 ➔ -R$ billion
- 1st Feb. -- The 2016/2017 end of year recess of Congress ends
- 1st Feb. -- Recess period ends for Judicial Branch
- 1st Feb. – STF should decide legality of reelection of Dep. Rodrigo Maia
- 1st Feb. -- Trade Surplus for January ➔ US$ billion
- 2nd Feb. -- Election of new Senate and Chamber of Deputies Presidents
- 3rd Feb. -- Fenabrave auto sales in January ➔ units, - % YoY
- 3rd Feb. -- IBGE December Industrial Production, - % MoM
- 6th Feb. -- Central Bank savings accounts net loss of R$ billion
• 6th Feb. -- FGV: IGP-DI in January ➔ +% 
• 6th Feb. -- IBGE: IPCA for January/17 ➔ +%,
• 7th Feb. -- Argentine President Mauricio Macri plans to visit Brazil
• 10th Feb. -- PT celebrates its 37th anniversary
• 16th Feb. -- IBGE, December retail sales ➔ % MoM & % YoY
• 19th Feb. -- Ecuador ➔ First Round presidential elections

1 - POLITICS

1.1 – Marisa Leticia suffered cardiovascular accident

On Tuesday afternoon, 24th January, former First Lady Marisa Leticia Lula da Silva (age 66) suffered a cardiovascular accident (cerebral hemorrhage) around 3:15 p.m. and was initially hospitalized in São Bernardo do Campo, SP – but was then transferred to the Hospital Sírio-Libanês in São Paulo under the care of Dr. Roberto Kalil Filho. She had suffered an aneurism – a ruptured blood vessel with bleeding inside the brain. As of Friday evening, 27th January, she continued under sedation and hooked up to the “machines”. Her doctors said that she had improved “very slightly”.

Maria Leticia and Lula

1.2 - Chamber of Deputies election

The Senate and the Chamber of Deputies will reconvene next week on 1st February after the end-of-year legislative recess and the elections of their respective Presidents will be the day after ➔ Thursday, 2nd February.

Last Friday, 20th January, a first level substitute federal judge in Brasília issued an injunction prohibiting the current Chamber President Dep. Rodrigo Maia (DEM-RJ) from running for reelection. On 23rd January, the President of the 1st Region TRF (Brasília), Hilton Queiroz, annulled (overturned) this injunction. However, there are two other suits before the Supreme Court and STF President gave Maia ten days to respond. Whether the High Court will decide this case on 1st February or not is not known. ➔ Stay tuned!!
Dep. Rogério Rosso (PSD-DF), floor leader of the PSD in the Chamber, quit the race for Chamber President on 14th January. This leaves only Dep. Jovair Arantes (PTB-GO) as the only remaining “serious candidate”. Apparently, Maia has garnered enough support that it is possible that he might be elected on a first round vote.

Attention has now turned to the election of the First Vice-President of the Chamber that is “reserved” for the PMDB that has eight pre-candidates. President Michel Temer is conversing with leaders of his party in the Chamber in an effort so that the party field only one official” candidate for this post. The PMDB floor leader Dr. Baleia Rossi (SP) has set a party caucus or 31st January to vote (decide) on the party’s [single] candidate.

However, THREE PMDB pre-candidates affirmed that independent of the caucus decision on 31st January, they would be “extra-official” candidates for the 2nd February election ➔ Fábio Ramalho (MG), Valdir Colato (SC) and Osmar Serraglio (PR).

1.3 – Lava Jato

On 23rd January (after the three-day mourning period following the death of STF Judge Teori Zavascki), STF President Carmen Lúcia authorized the judges and staff from Teori’s office to continue with the processing of the plea bargaining testimony documentation from the 77 Odebrecht directors and staff – including final testimony from the 77 attesting that they were not “coerced” during their respective plea bargaining.

Odebrecht – There are indications that by 2018 the Odebrecht family will withdraw from the administration of its firms and an IPO would “open the doors” for private stockholders to buy into the firm. Peru decided to cancel its concession for the construction and operation of a gas pipe line. Odebrecht holds a 55% share in this project with Enagás (25% and Graña Y Montero (20%). Peruvian President Pedro Paulo Kuczynski determined that Odebrecht should sell off ALL its assets, projects and investments (some quite valuable) and leave Peru.

The Netherlands – In 2016, a group of investors, entities and law offices organized a foundation called Stichting Petrobras Compensation Foundation to seek redress for those who lost money by acquiring Petrobras bonds. The choice of The Netherlands is because it is the HQ of Petrobras Global Finance

1.3.1 – Operation Eficiência

As a sequence to Operation Calicute (in November 2016), the Rio branch of Lava Jato launched Operation Eficiência on 26th January against mega business operator Eike Batista. Judge Marcelo Bretas of the 7th criminal circuit in Rio issued nine prison warrants, four coercive testimony, and 22 search-and-seize. Among the arrest warrants – Eike Batista and Flamengo Soccer Club Vice-President lawyer Flávio Godinho (Batista’s “right hand man). Batista is accused of paying bribes to former Governor Sérgio Cabral (PMDB) disguised by a false contract. Batista is traveling overseas and his EBX affirmed that he would turn himself in upon his return to Brazil.
Batista, Cabral and Godinho are also accused of “obstruction of justice” because it has now been discovered that they transferred funds to a bank account in Panamá just ahead of a “search-and-seize” order back in 2015. In May 2016, testimony by Eike Batista compromised former PT Finance Minister Guido Mantega vis-à-vis the Petrobras corruption/bribery scheme.

The “false contract” used by Batista to pay the bribe to Cabral was via the “sale” of a gold mine as part of the US$ 100 million scheme. The same offshore was used by Eike Batista to pay João Santana for his services for marketing in the 2010 and 2014 campaigns by Dilma Rousseff.

The Federal Police suspect that Batista was “forewarned” because he traveled to New York City on Tuesday night, 24th January – on his German passport. His mother was German. Brazil has alerted Interpol that he is a fugitive from justice. Batista’s lawyer, Sérgio Bermudes, denied that he left Brazil to avoid arrest and that he will present himself to the authorities in Rio “soon”.

Batista had considerable time to be “forewarned” because his arrest warrant was issued by the federal judge in Rio on 13th January but the Federal Police only went to his mansion to try to arrest him on 26th January 13 days. Now the press is questioning why the Federal Police did not arrest him on 14th January???

Extradition from the US should be relatively easy because of a bilateral treaty, but if Batista gets to Germany his extradition to Brazil would be next to impossible. Because Batista never completed his university degree in Germany, he would be relegated to a “common prison cell” in Brazil.

1.3.2 – Nestor Ceveró – more testimony

_Lava Jato_ prosecutors ascertained that former Petrobras Director who also worked with BR Distribuidora had “omitted” some “aspects” in his plea bargaining testimony and so he was called in for “additional testimony” ion October 2016. So far, no details are available because this testimony was not certified (_homologada_) by the STF reporter Teori Zavascki who requested more details.

However, the press has reported that he opened three new lines of inquiry: 1) Corruption by former MT governor Sinval Barbosa regarding state asphalt contracts; 2) The acquisition of _precatórios_ by Petrobras; and 3) Corruption in the expansion BR Distribuidora installations. Ex Governor Sinval Barbosa has been in prison for over one year in Cuiabá under _Operation Sodoma_ – a fraud scheme for fiscal incentives.

1.3.3 – Transparency International – Corruption ratings
On 25th January, Transparency International (anti-corruption, pro-transparency NGO with HQ in Berlin) released its CPI-Corruption Perceptions Index. Although Brazil’s “score” improved two points (38→40), its ranking declined by three positions (76th→79th). These rankings are “relative” – compared with the 176 nations included in this index. Brazil was tied with two other BRICS → China and India. The other BRICS were → South Africa (69th) and Russia (134th). The US was ranked 19th and the UK was 13th.


See ➔ [https://www.transparency.org/country/BRA](https://www.transparency.org/country/BRA)

TI announced that Brazil’s Lava Jato Investigation [Operation Car Wash] had been selected for the 2016 Anti-Corruption Award and stated that this operation was a very good example of anti-corruption initiatives for Latin America.


Two Brazilian newspapers gave quite different interpretations in their headlines vis-à-vis the TI story:

The **Rio Times** ➔ “Brazil Improves Its 2016 Corruption Rating”


The **Folha de São Paulo** ➔ “Brazil’s Ranking got Worse”


New Zealand and Denmark were tied in first rank, followed by Finland, Sweden, Switzerland and Norway. The five worst ranked were ➔ Somalia (176th), South Sudan (175th), North Korea (174th), Syria (173rd) and Sudan (170th).

The best ranked countries in Latin America were ➔ Uruguay (22nd), Chile (26th) and Costa Rica (42nd). The worst-ranked in the region were ➔ Venezuela (167th), Haiti (160th), Nicaragua (146th) and Guatemala (137th).

1.4 – Teori’s replacement – New STF Judge

After much speculation regarding Pres. Temer’s choice to replace Judge Teori Zavasckii on the Supreme Court – including the affirmation that the appointee should be from São Paulo – on 23rd January it was revealed that Temer prefers a current judge on a higher federal court. Teori himself had been that type of appointment. After serving on the Regional Federal Court in Porto Alegre, he was appointed to the STJ and then to the STF. Within this logic, analysts point to other current STJ & TST judges as “strong possibilities”. The name most frequently cited name is Ives Ganda da Silva Martins
Filho (current TST President) – son of a long time Temer friend – Ives Ganda – who is very well known in legal and judicial sectors in Brazil. Other STJ judges cited were Rogério Schietti, Luís Felipe Salamão and Isabel Gallottii plus Bruno Dantas (TCU judge) and former Senate staffer. However, the leaders of Brazil’s six largest parties that have several of their members of Congress under Lava Jato investigation prefer the current Minister of Justice Alexandre de Moraes (linked to the PSDB-SP).

Although many think that Ives Ganda Filho is “leading the pack”, he is known to be part of the Opus Dei movement and has publicly stated that all wives should strictly obey their husbands and that same-sex marriages are “abnormal”. He is reputed to be the Fiesp candidate.

The press has listed five STJ judges and their respective supporters:

<table>
<thead>
<tr>
<th>Judge on STJ</th>
<th>Supporter</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>João Otávio de Noronha</td>
<td>Sen. A. Neves (PSDB)</td>
<td>Corregedor on the CNJ</td>
</tr>
<tr>
<td>Luís Felipe Salomão</td>
<td>PMDB-RJ</td>
<td>STJ since 2008</td>
</tr>
<tr>
<td>Hermann Benjamin</td>
<td>PSDB &amp; DEM</td>
<td>Reporter on Dilma/Temer case at TSE</td>
</tr>
<tr>
<td>Humberto Martins</td>
<td>Renan Calheiros</td>
<td>Current STJ Vice-President</td>
</tr>
<tr>
<td>Mauro Campbell</td>
<td>Sen. E. Braga &amp; Manaus Mayor</td>
<td>Corregedor of Federal Judiciary</td>
</tr>
</tbody>
</table>

A second woman is cited by the press – Flávia Piovesan – the current National Secretary for Human Rights. She was Michel Temer’s student at USP.

AJUFE-Association of Federal Judges is preparing a list with three names – suggestions for Teori’s replacement.

The profile of the “Second Group” at the STF regarding rejection of RHC (Requests for Habeas Corpus) for Lava Jato decisions by Judge Sérgio Moro showed that 81% of the 32 cases were rejected and that Judges Cármen Lúcia and Celso de Mello were the “toughest” – rejecting 24 and 22 cases, respectively. The more “favorable” judges were Gilmar Mendes and Dias Toffoli, 12 and 7 rejections only. When she became President of the STF, Cármen Lúcia was replaced Ricardo Lewandowski.


1.5 – More prison riots

Early Tuesday morning, 24th January, a riot irrupted at a detention center in Bauru, SP. Some 200 prisoners were able to escape. Apparently, there were no hostages taken but part of this prison was set on fire. This prison has the capacity for 1,124 prisoners but had 1,427 inmates.

1.6 – Safra to lead collective law suit against Samarco
The Banco Safra – via its office in Cayman Islands is leading a collective law suit in NY courts (Judge Richard Berman) against Samarco to recover lost value of investments in this joint venture (Vale & BHP Billiton between 2012 and 2014. Reportedly, Safra lost US$64.9 million

Banco Safra also has a suit against Andrade Gutierrez regarding the loss of value of its debt bonds. This is not a collective law suit.

1.7 – PSD now counts 5 Senators

In December, Sen. Lasier Martins (RS) left the PTB and became a Senator without any party affiliation – in lieu of his expulsion from the PDT. On 24th January, he decided to join the PSD that now counts five Senators.

1.8 – Anniversary dates

25th January marked three important dates in Brazilian history:

The 463rd anniversary of the founding of São Paulo – a local holiday.

100 Years that ex-President Jânio Quadros was born in Corumbá, MS.

90 Years that noted Brazilian singer and composer Tom Jobim was born in Rio.

1.9 – Plane crash in Paraty

Investigators were able to recover (lift out of the water) the fuselage of the Beechcraft King Air plane that crashed in to the ocean as it tried to land at the Paraty airport on 19th January – killing STF Judge Teori Zavascki. They also recovered the cockpit voice recorder that although it was damaged by the salt water, the Cenipa technicians in Brasília (using techniques and equipment supplied by Beechcraft) were able to extract all the 30 minutes recorded before the crash. The pilot made two landing attempts that were impossible because of the rain, winds and cloud cover. On the third attempt, the technicians believe that the pilot suffered “disorientation” and did not perceive how close the plane was to the water. ➔ Stay tuned!!

2 – FOREIGN RELATIONS & TRADE

2.1 – Acting US Secretary of State

Incoming President Donald Trump requested that the 50-some second echelon public servants remain on their jobs until his new appointees have been confirmed by the US Senate. This includes those permanent employees who are Under Secretaries. Thus, before the new Secretary of State is confirmed, the Under Secretary for Political Affairs at the State Dept., Ambassador Thomas A.
Shannon became Acting Secretary of State as of 20th January. Shannon was the US Ambassador to Brazil (2009-2013).

2.2 – Fifth CELAC Summit

On 24th January, the Foreign Ministers of the CELAC-Community of Latin American and Caribbean States met in Santo Domingo. This also was the XLVIII encounter between CELAC and the EU with 59 nations represented.

The next day, the Fifth Summit of CELAC began with the arrival of the heads of state.

3 – REFORMS

3.1 – Social Security

One of the problems of Brazil’s social security system is debt accumulation. For example, 89% of Brazil’s municípios owe a total of R$ 99.6 billion in overdue INSS contributions. These debts impede these towns and cities from receiving revenue sharing from the federal government.

4 – PRIVATIZATION & REGULATION

4.1 – New airport concessions

The next concession auction for four Brazilian airports is scheduled for March ➔ Salvador, Fortaleza, Florianópolis and Porto Alegre. Apparently, six foreign groups are interested in participating in this auction ➔ Vince (France), Fraport (Germany), Zurich Airport (Switzerland), AB Concessions (Italy) and Infraamérica (Argentina). Also, three Brazilian concession holders are interested ➔ CCR, Invepar and EcoRodovias. This auction is expected to produce some R$ 6 billion in new investments over the next 30 years.

This will be the first concession auction for the Temer government. In 2012, three large airports were privatized (with 11 groups participating. In 2013, two airports were privatized with 5 groups.

The four airports are detailed below:

<table>
<thead>
<tr>
<th>Airport</th>
<th>Minimum Bid</th>
<th>Passengers</th>
<th>Flights</th>
</tr>
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<tbody>
<tr>
<td>Fortaleza</td>
<td>R$ 1.4 billion</td>
<td>5,695,506</td>
<td>54,133</td>
</tr>
<tr>
<td>Salvador</td>
<td>R$ 1.2 billion</td>
<td>7,445,690</td>
<td>79,489</td>
</tr>
<tr>
<td>Florianópolis</td>
<td>R$ 200 million</td>
<td>3,531,991</td>
<td>44,250</td>
</tr>
</tbody>
</table>
Porto Alegre  R$ 100 million  7,643,865  79,738

This scheme does not seem to have a direct correlation between the minimum bid and the volume of passengers and fights in 2016. Salvador was considered the “worst” airport and Curitiba the “best” in a study released by the Transportation Ministry on 24th January.


In previous auctions (2012 & 2013) the bidding groups were led by Brazil’s large construction firms, but in 2017, these firms are hampered by the devastating impact of their involvement in the Petrobras corruption/bribe scheme investigated by Lava Jato task force. For this reason, the interested groups are led by firms that already administer airports in other countries and will probably seek the participation foreign equity firms.

**Rules:** In 2017, the “rules” are somewhat different than in 2012 & 2013 – and are not very clear. For example, Fernando Vilella, a lawyer with the Siqueira Castro law firm that represents Fraport (that administers the Frankfurt airport) said that the rules are not very clear regarding the “environmental problems” of some airports that would be “inherited” by the new concession holder. ANAC only listed the numbers of the court suits against the airports and of course the outcomes are “unknown”.

4.2 - Eletrobras

Brazil’s electricity holding, Eletrobras, is considering holding an auction to sell six state distribution companies (in the North Region) “all at once” – the same day in late 2017 ➔ Amazonas Energia, Cepisa (Piauí), Ceal (Alagoas), Eletroacre, Boa Vista Energia (Roraima) and Ceron (Rondonia – thus, interested parties could bid on several firms.

Brazil’s 2017 annual budget lists R$ 24 billion coming from concessions and privatizations.

5 - ECONOMICS

5.1 – Unemployment at 21.2%

A recent study by Credit Suisse that included all persons who are no longer looking for a job and those who survive doing diverse odd jobs (bicôs) ➔ expanded unemployment. This study revealed that Brazil is the country with the sixth largest “expanded unemployment” (out of 31 nations included in this study ➔ 21.2%), nearly double the “official” unemployment rate (11.8%). This Credit Suisse survey found that Brazil has 23 million unemployed. The average among these 31 nations was 16.1%. The “top five” were Greece (31.2%), Spain (29.75%), Italy (24.6%), Croatia (24.6%) and Cyprus (23.8%).

5.2 – Industrial Production up in December
On 20th January, IBGE released Industrial Production data for December ➔ +3.0% MoM. This increase points to a stronger GDP result for 4th Q/2016. This data is scheduled to be released on 3rd March 2017.

5.2.1 – White Line sales continue to decline

For the fourth year, sales of “white line” appliances declined by were down in 2016 by -10% MoM (12.9 million units sold in 2016) – according to Eletros-National Association of Electros-Eletronic Products. The “peak” year was 2012 – 18.9 million units sold. Eletros predicts that sales will increase in 2017.

5.3 – 2016 Public Accounts

The Central Bank released this data on 24th January.

**Current Account Deficit (2016) ➔ -US$ 23.5 billion, smallest in 9 years (1.3% of GDP)**
- 60% less that the -US$ 58.9 billion posted in 2015
- The worse result was a -US$ 104.2 billion deficit in 2014
- The last surplus was +US$ 400 million in 2007.

**FDI ➔ +US$ 78.9 billion**
- 6% more than the US$ 74.4 billion in 2015
- More than covered the Current Account deficit

**FDI** in 2016 did not involve investment capital participation in firms, but rather because multinational firms invested in their branches in Brazil. This denoted “caution”.

**Foreign Investment by Brazilian Firms ➔ US$ 7.7 billion**
- 42.5% less than the US$ 13.4 billion in 2015

**Brazilian Tourist spending overseas ➔ US$ 14.5 billion (-16.5% YoY)**
- The lowest result since US$ 10.9 billion in 2009

**Social Security ➔** The social security (INSS) deficit increased from -R$ 85.8 billion in 2015 to -R$ 149.7 billion in 2016 ➔ -R$4 46.3 billion for the urban sector and -R$ 103.4 billion for the “rural” sector. Between 2008 and 2015 the INSS urban sector was positive (but declined +R$ 25.3 billion ➔ +R$ 5.1 billion from 2014 to 2015 – but declined precipitously in 2016 due to the recession. It is estimated that the INS deficit will reach R$ 182.1 billion in 2017. About 30% of the 2016 deficit were due to “exemptions” (non-payment of INSS contributions) issued by the federal government (R$ 43.4 billion).

**Public Debt ➔** On 25th January, the STN announced that in 2016 Brazil’s public debt had surpassed R$ 3 trillion ➔ R$ 3.112 trillion (+11.4% YoY).

**Federal Tax Revenues ➔ R$ 1.289 trillion (-2.97% YoY), the worst result since 2010.** In December 2016, tax collections totaled R$ 127.607 billion (-1.19% YoY). In 2016, tax exemptions cost R$ 90.676 billion.
5.4 – Petrobras – Refining capacity declined

In 2014, Petrobras achieved a “peak” in its refining capacity ➔ 76.015 million barrels. This volume declined to 724.149 million barrels in 2015 and to 670.068 million barrels (-7.5% YoY) in 2016. This was the lowest refining capacity since 661.835 million barrels in 2010. According to specialists in this sector, the problem was that Petrobras kept its prices above the international prices of gasoline and diesel, and Brazil’s Sindicom (association of retail distributors) decided to import gasoline and diesel directly at cheaper prices. Petrobras – under new management (CEO Pedro Parente) – has adopted new policies to maintain prices in line with international levels.

5.5 – CMN moved to reduce credit card interest rates

This week the CMN-National Monetary Council (sic Central Bank) moved to reduce interest rate charges on credit card balances. In spite of recent Copom reductions in the Selic basic interest rate to 13.0% (per year), this week the Central Bank monitoring of “average” interest rates charged by banks on their credit cards advanced to **484.6% per year**. The CMN ruled that as of 3rd April credit card “revolving credit” can only be used for **30 days** – the credit card holder would have to pay off the remaining balance on his/her card in the second monthly statement (30 days). If not, the bank would be obliged to negotiate a schedule of monthly payments to liquidate the outstanding balance.

For example, for an outstanding balance of R$ 3,000,00, in three months via the current “revolving credit” (15.33% per month) the final cost would be R$ 3,963,39, but via three monthly payments (8% per month) the cost would be R$ 3,492,30 ➔ a difference of R$ 471,09.

Over due credit card balances turn into a “snowball” that many persons are unable to liquidate due to the recession and increased unemployment.

The Spanish Banco Santander affirmed that these new measures would probably produce an increase in bank credit availability from 5% to 7% in 2017.

http://g1.globo.com/economia/noticia/conselho-monetario-nacional-restringe-uso-do-rotativo-no-cartao-de-credito.ghtml
