Brazil Focus –
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Weekly Report
Jan. 28-Feb. 3
2017

Looking Ahead ➔ What to watch for?

- 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
- 19th Feb. -- End of daylight savings time in Brazil ➔ two-hour difference between NYC and Brasilia
- 20th Feb. -- Central Bank to announce IBC-Br for December
- 20th Feb. -- FGV to announced IGP-10 ➔
- **20th Feb.** -- Presidents’ Day – Holiday observed in the US
- **21-22 Feb.** -- Copom meeting
- **23rd Feb.** -- 2017 Strategic Planning Meeting, Brazil-US Business Council
- **24th Feb.** -- IBGE: IPCA-15 \( \Rightarrow + \% \) versus \(+ \%\) in January
- **24th Feb.** -- IBPT \( \Rightarrow \) 2016 tax burden \( \Rightarrow \) \% of GDP versus \% in 2015
- **24th Feb.** -- SRF – federal tax collections January 2017 \( \Rightarrow \) R$ billion (- YoY)
- **24th Feb.** -- IBGE – January unemployment \( \Rightarrow \), versus \% in December
- **25-28 Feb.** -- Carnaval (National holiday)

1 - POLITICS

1.1 – *Lava Jato*

These investigations “advanced” this week.

TCU \( \Rightarrow \) In his plea bargaining testimony, former Petrobras Director Renato Duque affirmed that TCU minister Augusto Nardes had received a bribe payment of R$ 1 million in 2011-2012 in return for not interfering (questioning) contract procedures for an offshore drilling rig. This bribe was directed to Nardes by then Petrobras manager Pedro Barusco. According to the plea bargaining testimony by former federal deputy Pedro Corrêa (PP-PE), in 2003-2005 Nardes (then a PP deputy) received part of the PP allotment (big allowance) during the Mensalão operation. Nardes was appointed to the TCU in 2005.

Moreira Franco was named to a “Ministerial Position” (re-created the Ministry for Human Rights) by Pres. Temer and thus gained *foro privilegiado* [can only be prosecuted by the STF). Moreira Franco is already accused in several Lava Jato cases and probably will have even more (new) accusations resulting from the plea bargaining testimony by the 77 Odebrecht executives.

1.1.1 – *Homologação – Odebrecht testimony*

Presiding over the STF during its recess period, on 30th January, Supreme Court President Cármen Lúcia *homologou* [validated] all of the plea bargaining testimony by the 77 executives and staff of Odebrecht. This process was proceeding under the then reporter, STF Judge Teori Zavascki, before his tragic death in the air crash in Paraty on 19th January. Cármen Lúcia ordered Zavascki’s assistants and staff to continue their work and they finalized this process late last week.

Juiz auxiliary Márcio Schiefler (Zavascki’s “right hand man) assisted Cármen Lúcia during this process and worked with her over the past weekend to prepare the *homologação*. She preferred to dispatch this straight away rather than await the designation of another STF judge to assume the Lava Jato reporter role.
On 30th January, this documentation was transmitted to the PGR that will decide which points should be further investigated and which transmitted directly to the STF for prosecution. This information should be available next week.

It is estimated that this testimony will double the number of accused in the Lava Jato investigation – including various politicians in Temer’s first echelon.

⇒ Stay tuned!! This is called “the end of the world”.

1.1.2 – The “Fugitive” returned to Rio

As reported last week, finally on 26th January (11 days after the federal judge in Rio issued an arrest warrant for mega-investor Eike Fuhrken Batista da Silva) his arrest was attempted. However, the Federal Police quickly discovered that he had flown to NYC on 24th January, using his German passport. Thus, he became a “fugitive” from justice and his name was added to the Interpol arrest list.

On Sunday evening, 29th January he embarked at JFK for Rio and arrived at Galeão airport at 9:54 a.m. and was immediately arrested by the Federal Police, taken to the IML for a medical evaluation and then to the Ary Franco prison (for prisoners who do not hold a university degree). He never completed his engineering degree in Germany. Before he embarked at JFK, he gave a TV interview to TV Globo.

At the Ary Franco prison, Batista’s hair was cut short (no wigs allowed). This practice was used for runaway slaves in the 19th century. Where did the name “Eike” come from? His father – Elieser Batista – was a very important entrepreneur in Brazil who married a German woman. The father was a great fan of Gen. Dwight Eisenhower – US President (1953-1961) whose nickname was “Ike”. Because Ike did not fit well in Portuguese, the son was named “Eike”.

On Monday afternoon, Batista was transferred to the Bangu 9 prison because Ary Franco did not offer enough “protection” for the prisoner. However, his lawyers want him transferred to the downtown Federal Police lock up where he would have maximum protection against aggression by other prisoners. On Tuesday, he was taken to the Federal Police HQ downtown for questioning by the Federal Police and Lava Jato investigators. He was quizzed during four hours and then returned to the Bangu prison. However, he said nothing and will await interrogation by a judge. Probably, he is trying to gain a “hedge” to plea bargain his way out of prison. His plea bargaining testimony might begin to open the “black box” at the BNDES.
The Federal Police are now investigating whether (and how) had prior knowledge about this investigation and the arrest warrant to be issued. **Detail:** In 2009, Eike Batista “invested” R$ 1 million in the production of the movie “Lula, O Filho do Brasil”.

### 1.1.3 – João Santana sentenced

On 2nd February, after the federal judiciary returned from its recess, Judge Sérgio Moro sentenced Dilma Rousseff’s marketing specialists João Santana and his wife Monica Moura to **eight years** in jail and US$ 4.5 million were confiscated from their accounts. Also sentenced were ➔ former PT national treasurer João Vaccari Neto, former Petrobras manager Eduardo Musa, overseas bank account “operator” Zwi Skornicki, and former president of Sete Brasil João Carlos de Medeiros Ferraz.

**Monica Moura & João Santana arrested by Federal Police**

### 1.2 – “Musical Chairs” at the STF

How to decide which STF judge will replace Teori Zavascki as the Reporter on all Lava Jato cases? This was the delicate question that STF President Cármen Lúcia contemplated last weekend – 1) Should she just appoint the replacement?; 2) Should a lottery be used among the other nine judges?; or 3) A lottery among the four judges remaining in the second TSE working group (that included Teori).

The two working groups at the STF have five judges each (the President is not included). Apparently, Judge Edson Fachin (now part of the other group) has presented himself as a possible transfer to the group that included Teori – thus completing the five-judge group. It appears that if this transfer is accepted, then there would be a lottery (among the five judges) to select Teori’s replacement.

The new judge – to be nominated by Pres. Temer and then confirmed by the Senate would complete the five-judge group (from which Fachin would transfer).

Thus, the group subject to this lottery would be composed by Edson Fachin, Ricardo Lewandowski, Dias Toffoli, Gilmar Mendes and Celso de Mello. Two complications ➔ Gilmar Mendes is the current President of the TSE and Dias Toffoli is the current STF Vice-President who will become President in September 2018. The STF “Dean” (longest serving judge), Celso de Mello, was the “reviser” for Teori Zavascki’s decisions and logically would be the best replacement – but his health is considered “fragile”. The lottery held on 2nd February designated Judge Luiz Edson Fachin to replace Teori Zavascki and reporter for the Lava Jato investigation.
Surprise – On 1st February it became apparent that most of the judges and staff who assist Teori Zavascki at *Lava Jato* reporter will leave their positions – including Teori’s “right-hand-man” Judge Máricio Schieffler Fontes. He is considered the “living memory” of *Lava Jato* at the STF. On 31st January, STF President Cármen Lúcia tried to persuade Schieffler to stay on but he was resolute in his desire to return to TJ-SC.

Now, because Pres. Temer had affirmed that he would appoint a new judge to replace Zavascki on the Supreme Court only after Judge Zavascki’s replacement as reporter had been designated, this appointment should be forthcoming in a few days. However, Temer decided to await the new composition (27 Senators) of the Senate CCJ (that will hold confirmation hearings for his appointee) before deciding on a name. Also, Temer plans to consult with STF President Judge Cármen Lúcia.

1.3 – Marisa Letícia

On Tuesday, 31st January, Lula’s wife’s medical team at the Hospital Sírio Libanês discovered that thromboses (blood clots) had appeared in her legs and if these clots move through her veins, this might affect her lungs, parts of her heart and brain – a potentially a very dangerous condition. The doctors worked to reduce this threat and she still remained under sedation.

On Wednesday afternoon, 1st February, her condition took a turn for the worse and she was listed in “very grave” condition. Her inter-cranium pressure increased as well as inflammation of her brain.
Brain Death – The evening of 1st February, the Sírio-Libanês medical team did a scan of Marisa’s brain and found no blood circulation present. They then informed Lula and the assembled family that she had suffered “brain death”. Lula then instructed the medical team to decide which of her organs could be donated and advise the potential recipients to come to the hospital to receive her organs – a very noble gesture and a very good example for Brazilians. Until her organs were removed, she continued to be sustained by the “machines” and her heart continued to beat normally.

Both Marisa Letícia and Lula suffered very similar family tragedies. In June 1971, Lula first wife, Maria de Lourdes da Silva, died giving birth (inadequate hospital care) to their son who was born dead. In 1970, Marisa Letícia lost her first husband – Marcos Claudio da Silva – who was murdered while driving his taxi in São Bernardo do Campo, SP. At the time, she was pregnant and her first son, Marcos, was born after his father’s death.

Marisa Letícia Rocco Casa was born in São Bernardo do Campo, SP on 7th April 1950 into a family of Italian immigrants from Palazzago, Bérgamo province. Thus, she has Italian citizenship that she was able to pass on to her children and Lula. In 1973, Marisa met Lula at the Metal Workers’ Labor Union HQ in São Bernardo and they were married 6 months later in 1974. Lula already had a daughter, Lurian, resulting from a “relationship” with Miriam Cordeiro before marrying Maria de Lourdes. Later, Marisa incorporated “Lula” into her name.

In addition to Marcos, Marisa and Lula had had four other sons – Fábio Luís, Sandro Luís, Renato and Luís Claudio.

The doctors would only be able to declare her death at 6:00 a.m. on 3rd February. On 2nd February, former President Fernando H. Cardoso (PSDB-SP) visited Lula and his family at the hospital.
On Thursday evening, 2nd February, Pres. Temer traveled to SP and also visited Lula and family at the hospital. Temer was accompanied by a large group ➔ PMDB (Renan Calheiros, Romero Jucá, José Sarney, Eduardo Braga, Edison Lobão & Eunício de Oliveira); PSDB (José Serra & Cassio Cunha Lima); and cabinet ministers (Moreira Franco, Henrique Meirelles and Helder Barbalho).

Lula also received visits from Ciro Gomes and Dilma Rousseff on 3rd February.

At 7:00 pm., Friday evening, 3rd February, the hospital issued her death certificate and she ws declared officially dead. Before being cremated, Marisa Letícia’s body was placed in mourning at the HQ of the Metalworkers’ Labor Union in São Bernardo do Campo, SP on Saturday, 4th February.

1.4 – Elections in Congress

Congress re-convened on 1st February after the end-of-year recess and the Senate elected its presiding officers for the 2017-2019 period on 1st February and the Chamber on 2nd February

1.4.1 – Senate Elections

On Wednesday afternoon, 1st February, the Senate elected Sen. Eunício Oliveira (PMDB-CE) as President with 61 votes vs. 10 votes for Sen. José Medeiros (PSD-MT). The other Senators present voted blank.
In a negotiated agreement among the Senate party leaders, the composition of the Senate governing board was as follows:

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Party</th>
</tr>
</thead>
<tbody>
<tr>
<td>President</td>
<td>Eunício Oliveira</td>
<td>PMDB-CE</td>
</tr>
<tr>
<td>1st V-President</td>
<td>Cássio C. Lima</td>
<td>PSDB-PB</td>
</tr>
<tr>
<td>2nd V-President</td>
<td>João Alberto Souza</td>
<td>PMDB-MA</td>
</tr>
<tr>
<td>1st Secretary</td>
<td>José Pimentel</td>
<td>PT-CE</td>
</tr>
<tr>
<td>2nd Secretary</td>
<td>Gladson Cameli</td>
<td>PP-AC</td>
</tr>
<tr>
<td>3rd Secretary</td>
<td>Antonio Carlos Valadares</td>
<td>PSB-CE</td>
</tr>
<tr>
<td>4th Secretary</td>
<td>Zezé Perrella</td>
<td>PMDB-MG</td>
</tr>
</tbody>
</table>

As usual, by tradition, the “pecking order” by size of party was observed, PMDB⇒PSDB⇒PT⇒PP⇒PSB.

The next step is to allocate the Chairs of the standing committees among the parties. The PMDB will choose the Chair of the all powerful “gatekeeper” CCJ. This committee will conduct the confirming hearing for Pres. Michel Temer's pick for the STF judge who will replace Teori Zavascki.

Eunício Lopes de Oliveira – was born in Lavras da Mangabeira, CE in September 1952 and married Monica Paes de Andrade (PMDB-CE) who was President of the PMDB and Senate President (1988-1989) and was named Ambassador to Portugal by. Paes de Andrade died in 2015 and age 88.

Eunício Oliveira received his BA in Business Administration at CEUB in Brasília and joined the MDB in 1972. He was elected federal deputy in 1998, 2002 and 2006. He was Lula’s Minister of Communication (2004-2005). In 2010, he was elected Senator from Ceará and in 2014 he was defeated for governor (on the 2nd round) by Camilo Santana (PT) who was supported by Eunício’s arch rival Ciro Gomes. He was cited by Sen. Delcídio do Amaral (PT-MS) regarding his involvement corruption schemes in Amaral’s plea bargaining in March 2016. It is expected the Eunício Oliveira will again run for Governor of Ceará in 2018. He is considered a “wealthy businessman” with agro-business activities, an armored car transportation firm – Confederal (that has R$ 703 million in contracts with federal banks) and other activities.

1.4.2 – Chamber Elections
On Wednesday afternoon, 1st February, STF Judge Celso de Mello removed the only obstacle to the reelection of Dep. Rodrigo Maia (DEM-RJ) as president of the Chamber by denying the three injunctions that his rivals had filed that alleged his reelection was unconstitutional and contrary to the Chamber’s internal rules [a deputy can’t be reelected to the same position on the Chamber governing board during the same legislative period]. However, Mello’s injunction is “temporary” and subject to a final review by the full Supreme Court. Thus, it is possible (but not very probable) that Maia’s election could be annulled.

The Chamber election was conducted on Thursday morning, 2nd February, and was presided over by the outgoing First Vice-President Waldir Maranhão (PP-MA).

Dep. Rodrigo Maia (DEM-RJ) was reelected on the first round with 293 votes. Dep. Jovair Arantes (PTB-GO) received 105 votes, André Figueiredo (PDT-CE) had 59, Júlio Delgado (PSB-MG) 28, Luiza Erundina (PSoL-SP) 10, and Jair Bolsonaro 4 with 5 blank votes. Thus, 504 deputies participated and Maia needed 253 votes to be reelected.

The composition of the Chamber governing board is as follows:

- **President**: Rodrigo Maia (DEM-RJ)
- **1st V-President**: Fábio Ramalho (PMDB-MG)
- **2nd V-President**: André Fufuca (PP-MA)
- **1st Secretary**: Giacobo (PR-PR)
- **2nd Secretary**: Mariana Carvalho (PSDB-RO)
- **3rd Secretary**: JHC (PSB-AL)
- **4th Secretary**: Rómulo Gouveia (PSD-PB)

The brother of Geddel Vieira Lima, Deputy Lúcia Vieira Lima (PMDB-BA) thought that he would be elected 1st Vice-President of the Chamber but he was defeated by two of his own PMDB “colleague” and did not make it into the 2nd round vote – where Ramalho defeated Dep. Osmar Serraglio (PMDB-PR) by a 265-to-220 vote.

The 3rd Secretary position was disputed by two PSB deputies and also went to a 2nd round vote where Dep. JHC (PSB-AL) defeated his PSB colleague João Fernando Coutinho (PSB-PE) on a 240-to-220 vote.

Unlike the Senate governing board, the Chamber elected one woman – 2nd Secretary Dep. Mariana Carvalho (PSDB-RO). She defeated the candidate supported by Sen. Aécio Neves (PSDB-MG ➔ Dep. Carlos Sampaio (PSDB-SP). Also, unlike the Senate, no PT deputy was elected to the Chamber governing board. Why? Because in the Senate, the PT agreed to negotiate with the other party leaders regarding the distribution of posts on its governing board the party was able to elect the First Secretary. In the Chamber, the PT decided not to participate in this “negotiation”.

Deputy Antonio Imbassahy (PSDB-BA) was appointed by Pres. Temer on 2nd February immediately after the Chamber election was completed. He will occupy the Secretariat for Government (first echelon cabinet position) replacing Geddel Vieira Lima who was forced to resign on 25th November after a nasty conflict with the then Minister of Culture Marcelo Calero. The so-called “Centrão/Centro Democrático” threatened Pres. Temer with “reprisals” if he appointed Imbassahy before the Chamber elections. This is a very key position – responsible for negotiations/articulations with Congress and with state governments.

Also – The Ministry of Justice received an “extended name change” ➔ Ministério da Justiça e Segurança Pública.

1.5 – Pres. Temer new cabinet ministers

On Friday, 3rd February, three new cabinet ministers were sworn in by Pres. Michel Temer:

1) Dep. Antonio José Imbassahy da Silva (PSDB-BA) – Secretariat of Government, replacing Geddel Vieira Lima (PMDB-BA). This post deals with political articulations and relations with Congress. He served as Governor of Bahia and Mayor of Salvador. He was elected federal deputy in 2010 and reelected in 2014. Until 2005, he had been linked to ACM and the PFL-BA.

2) Wellington Moreira Franco - He was married to Getúlio Vargas’ granddaughter and was federal deputy, Mayor of Niteroi (RJ), Governor of Rio de Janeiro, Secretary for Civil Aviation and currently Executive of the Private-Public Partnership Investments. He is a PMDB leader. This “upgrade” to cabinet status gives Moreira Franco foro privilegiado (can only be prosecuted at the STF). He has been cited in the Lava Jato investigations and probably will be cited again in the plea bargaining testimony by the 77 Odebrecht executives. Moreira Franco had been head of SAE under Pres. Dilma Rousseff (2011-2013).

3) Luislinda Valois – Secretariat for Human Rights, upgraded to a cabinet ministry, before subordinated to the Ministry of Justice. Luislinda is PSDB-BA and was the first Afro-Brazilian woman to become a judge and a member of the Bahia State Supreme Court. She was a candidate for federal deputy in 2014.

Also, via Medida Provisória, Pres. Temer re-created the Secretariat for Strategic Affairs (SAE) that had last been occupied by Harvard professor Roberto Mangabeira Unger but this post was
extinguished by Pres. Dilma Rousseff in October 2015. Temer appointed Hussein Ali Kalout to this post. Hussein holds a Political Science degree from the University of Brasília and a senior research fellow at the Belfer Center for Science and International Affairs at the Kennedy School, Harvard University. He is also a fellow associated with CSIS-Center for Strategic and International Affairs. He is a well known expert on international affairs and the Middle East region. He is a regular lecturer at the Rio Branco Inst. training school for Brazilian diplomats. Currently, he has a weekly column in the Folha de São Paulo. SAE will be attached to the General Secretariat of the Presidency (Min. Moreira Franco).

2 – FOREIGN RELATIONS & TRADE

2.1 – Foreign Trade Surplus

On 1st February, MDIC released Brazil’s foreign trade data for January ➔ a surplus of US$ 2.72 billion – the largest January surplus in 11 years (since 2006). Exports totaled US$ 14.91 billion (+20.6% YoY) while imports were US$ 12.18 billion (+7.3% YoY). The import breakdown showed – intermediate goods (+22.8%), fuels and lubricants (+15.8% YoY) and consumer goods (+2.8% YoY). But capital goods were down by -40.1% YoY – very bad news regarding new investments in industrial innovation.

Predictions: Bank analysts predict a 2017 trade surplus of US$ 45.1 billion, less than the US$ 47.7 billion posted in 2016.

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – Temer’s first highway concession auction

On 31st January, the government announced the process to prepare the concession auction for highways in Rio Grande do Sul and Santa Catarina. This will include the 121 Km between Porto Alegre and Osório (Rio Grande do Sul) – already held by Concepá (Grupo Triunfo) and another 347 Km of BR-101, north into Santa Catarina.

Currently, the concession has three toll booths and will be expanded to seven toll stations. The bidding will involve the lowest offer for tolls – currently at R$ 12,00 per 100 Km, but this might decline by 60% at the concession auction. The winner of this concession will be obliged R$ 7.9 billion construction improvements.
Public consultations will run through the end of March, and then ANTT will review the tendering document and seek approval of the TCU. Ninety days later, the auction could be held.

The second highway concession auction (later this year) will involve BR-365 and BR-364 between Goiás and Mato Grosso.

5 - ECONOMICS

5.1 – January Inflation

On 30th January, the FGV released its data for the IGP-M \( \Rightarrow +0.64\% \) slightly higher than the +0.54% posted in December. Thus, the 12-month accumulation now stands at +6.65% -- very close to the Central Bank’s upward inflation target limit of +6.50%. This is the inflation index used for rent increases.

5.2 – 2016 deficit

On 30th January, the Central Bank announced that the 2016 deficit had reached R$ 154.2 billion less than the projected deficit of R$ 170.5 billion – because of the “repatriation” of funds held by Brazilians overseas -- R$ 48 billion.

5.3 – Unemployment increased

On 31st January, IBGE released its PNAD data for unemployment in 4th Q/2016 (October-November-December) \( \Rightarrow 12\% \), 12.3 million persons unemployed. This result was higher than the median expectations of economists surveyed by Bloomberg News (11.9%). The previous PNAD (September-October-November) was 11.8%. In 4th Q/2015, PNAD posted 9.0% unemployed.

5.4 – Industrial Production

On 1st February, IBGE released its industrial production data for December \( \Rightarrow +2.3\% \) but -6.6% in 2016. Three years in a row. In 2015, IP declined by -8.3% and -3.0% in 2014. Previously, the worse decline had been -7.1% in 2009 – after the Wall Street blowout.

5.4.1 – Auto sales

On 1st February, according to Fenabrave, in January 147,229 units (cars, light commercial vehicles, trucks and buses) were sold (-5.18% YoY and -28% MoM). Sales of trucks and buses in January were down by -34.9% YoY.