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

- **21st Mar.** -- World Bank to release 2017 LPI-Logistics Performance Index
- **23rd Mar.** -- IBGE to release the IPCA-15 ➔ +%, *versus* +% in February
- **23rd Mar.** -- IBGE to release PME unemployment data for February ➔ %
- **24th Mar.** -- SRF ➔ February tax revenues R$ billion, - % YoY
- **24th Mar.** -- PMDB to celebrate its 51st anniversary, MDB founded 24th March 1966
- **24th Mar.** -- IBGE to release PNAD unemployment data for Nov-Dec-Jan ➔ %
- **26th Mar.** – Mass street demonstrations, pro-Lava Jato & anti-corruption
- **28th Mar.** -- IBGE: February PME unemployment data ➔ %, *versus* % in January
- **28th Mar.** -- Central Bank to revise estimate for Brazil’s GDP decline in 2017, %➔ %
- **28 Mar.-1st April** -- World Social Forum to meet in Tunisia (?)
- **30th Mar.** -- IMD – World Competitiveness Ranking, Brazil ranked ➔
- **30th Mar.** -- Public Account data for February
- **21st Mar.** -- FGV to release IGP-M for March ➔ +0.% *versus* +% in February
- **31st Mar.** -- Marks the 53rd anniversary of the 1964 military coup
• 3rd April -- Trade Surplus for March ➞ US$ billion & +US$ billion in 1st Q/2017
• 3rd April -- IBGE to announce February Industrial Production, - % MoM & - % YoY
• 4th April -- Social Security deficit -R$ billion in February (+ % YoY)
• 5-7 April -- 2017 World Economic Forum for Latin America to meet in B. Aires
• 6th April -- New car production in 1st Q/2017 ➞ units, - % YoY
• 6th April -- Savings Accounts depleted in 1st Q/2017 by - % YoY

1 - POLITICS

1.1 – Janot’s List

On Tuesday afternoon, 14th March, the PGR transmitted 83 requests to the STF to open investigations of politicians accused by the plea bargaining testimony by 77 Odebrecht executives and ex-executives. Among these 83 cases are ➞

6 ministers in Pres. Temer’s government – Aloysio Nunes (PSDB-SP), Foreign Relations; Eliseu Padilha (PMDB-RS), Casa Civil; Moreira Franco (PMDB-RJ), Sec-General of the Presidency; Gilberto Kassab (PSD-SP), Science, Technology & Communication; Marcos Pereira (PRB), MDIC; and Bruno Araujo (PSDB-PE), Cities.

6 governors – Geraldo Alckmin (PSDB-SP); Renan Filho (PMDB-AL); Luiz Fernando Pezão (PMDB-RJ); Fernando Pimentel (PT-MG); Tião Viana (PT-AC); and Beto Richa (PSDB-PR).

6 federal deputies – Dep. Rodrigo Maia (DEM-RJ), President of the Chamber of Deputies, plus five others.

10 senators – Eunicio Oliveira (PMDB-CE), President of the Senate; Edison Lobão (PMDB-MA); José Serra (PSDB-SP); Aécio Neves (PSDB-MG); Romero Junca (PMDB-RR); Renan Calheiros (PMDB-AL); Lindbergh Farias (PT-RJ); Jorge Viana (PT-AC); Lídice da Mata (PSB-BA); and Marta Suplicy (PMDB-SP).

Two ex-presidents – Luís Ignácio Lula da Silva (PT-SP) and Dilma Roussef (PT-RS).

Two former ministers – Antonio Palocci (Finance & Casa Civil) and Guido Mantega (Planning & Finance).

The cases of the latter four who do not have foro previlegiado will be transferred to the first level federal court in Curitiba (Judge Sérgio Moro).

These 31 names are what the press “discovered” after 14th March.
The complete list with the other 52 politicians will be revealed soon. First, the technicians at the STF have to register all these 83 cases before they can be delivered to the Lava Jato reported, Judge Edson Fachin (perhaps by Monday, 20th March.). Possibly, Judge Fachin will release the complete list within a week (by 27th March.


However, this list transmitted to the STF by the PGR is really not the “End of the World” for Brazil’s politicians – as many have predicted – a “catastrophe”. Three years ago, the PGR transmitted his “First List” to the STF and until now very few of those names have been prosecuted by the Supreme Court. If the same “ritual” continues in 2017-2018-2019, the politicians on “Janot’s second list” should be “free” to become candidates in 2018. But, their adversaries could use their inclusion on this list against them in the election campaign.

In order to avoid being “singled out” (attacked) in their 2018 reelection campaign, many deputies cogitate including a change in Brazil’s electoral system as part of the 2017 political reform package “close the list” for the election of deputies. Currently, Brazil uses one of the worse election systems in the world – proportional representation (PR) with an “open list” and election coalitions of 3, 4, 5, etc. political parties. PR is used in many nations where the voters select one party (a closed list) rather than vote for individual candidates (as in the case of Brazil). Only two or three other nations use PR with an open list”.

In open list PR, each party (or coalition) chooses a list of candidates and the voted can either vote for this list of select an individual name on the list (nominal vote). In Brazil, some 97% of the voters vote for an individual name and rarely know what party he/she represents. This leaves the parties weakened.

In the closed list system, each party elaborates a pre-ordered list of candidates. For example, if the party elects six seats, the first six names on this list are seated as deputies and the seventh name becomes the first alternate. The problem is WHO elaborates this list? The party leaders in each state? The party state executive committee? Or a primary election where all party members are allowed to vote? The latter alternative would be more democratic.

The closed list PR alternative has already been defeated several times in the Chamber of Deputies since 2003 because deputies fear that their party leaders might put them far down on the pre-ordered list, with small chances for reelection.

In 2017, many deputies feel that they could “hide their name within the closed list” and therefore seem to support the adoption of closed list PR as an alternative. The other problem for 2018 is campaign fiancé because in 2015 the STF declared contributions by businesses/firms to be unconstitutional and contributions by individual persons would not raise sufficient funds for an open list campaign as clearly demonstrated in the 2016 municipal elections.
On the other side, a closed list system could easily include a strong quota for female candidates, as in Argentina – where each closed list must have a woman candidate at least in third, fifth and seventh position on each party list. Thus, Brazil might adopt a closed list PR system – not to strengthen the political parties per se, but rather as an artifice to facilitate the reelection of deputies accused of corruption at the Supreme Court.

In late 2016, the Senate approved a modification in the election system for deputies – prohibit party coalitions. If approved by the Chamber, this would make the 2018 election even more complicated and many of the micro or smaller parties would merge or incorporate into larger parties – because of the 28 parties with at least one deputy in the Chamber, some 15 or 16 were able to elect deputies via coalitions with larger parties.


1.2 – Lava Jato

17th March marked the third anniversary of the Lava Jato investigation that began in 2014.

1.2.1 - Lula

Tuesday, 14th March, had other Lava Jato items ➔ Lula was called to testify before the 10th Federal Circuit judge in Brasília as one of the 7 accused of attempting to obstruct justice in 2015 ➔ witness tampering vis-à-vis former Petrobras Director Nestor Ceveró to avoid his damaging testimony. In addition to Lula, the six other accused are ➔ former Senator Deledio do Amaral (PT-MS), Diogo Ferreira (Amaral’s Chief of Staff), José Carlos Bumlai, his son Mauricio Bumlai, BTG Pactual banker André Esteves, and lawyer Edson Ribeiro. Lula denied all the accusations and said the “Deledio was lying”.


1.2.2 – Dep. Vander Loubet

On 14th March, the second STF group decided to indict Dep. Vander Loubet (PT-MS) and open a penal investigation against the deputy. Two other persons were also indicted – Pedro Paulo Leoni Ramos (closely linked to Sen. Fernando Collor (PTC-AL) and was his cabinet minister (1990-1992), and Ademar Chagas (Loubet’s brother-in-law). They were involved in corruption involving BR Distribuidora coordinated by Fernando Collor. The PGR also requested the indictment of Loubet’s wife, Roseli, and Fabiane Karina Miranda Avanci (a partner with Chagas), but the STF found a lack of evidence to indict them.


1.2.3 – Tatiana Cardoso
On Monday, 13th March, the Federal Police in Paraná indicted fashion model Tatiana de Souza Cardoso (a former lover of money changer Alberto Youssef). She was accused of money laundering, hiding Youssef’s assets. She was the cover girl in Brazil’s *Playboy* magazine in February 2015. She alleged that she has had no relationship with Youssef since he was imprisoned in 2014.


Tatiana Cardoso

On 17th March, Alberto Youssef was released to “house arrest” after three years in prison and will have to wear a GPS transmitted attached to his leg for two years. He and his firms were “docked” (lost) R$ 1 billion.

1.2.4 – Solange de Almeida

On 14th March, Gov. Luiz Fernando Pezão (PMDB-RJ) cancelled (annulled) the creation of a new State Secretariat (Protection & Support for Women) and the appointment of Solange de Almeida (PMDB-RJ) to this new post. The creation of the new state cabinet post and her appointment had been made the day before. WHY?? Pezão was forced to reverse himself after federal prosecutors informed him that she had already been convicted by a second level court for administrative impropriety.

Solangé’s “other problem” is that she is very closely linked to former Chamber of Deputies President Eduardo Cunha (PMDB-RJ) who is currently in prison in Curitiba accused of *Lava Jato* corruption and Solange is his co-defendant. Thus, she is likely to be arrested shortly by Judge Sérgio Moro. The federal prosecutors accuse Pezão of accepting pressures from Cunha to appointment Solange so that she could have the “cover” of *foro privilegiado* as a state cabinet secretary. She was elected Mayor of Rio Bonito (RJ) in 2012 but in 2016 decided not to run for reelection.

See ➔ [http://g1.globo.com/rio-de-janeiro/noticia/pezao-cancela-nomeacao-de-solange-de-almeida-para-secretaria.ghtml](http://g1.globo.com/rio-de-janeiro/noticia/pezao-cancela-nomeacao-de-solange-de-almeida-para-secretaria.ghtml)

1.3 – *Operation Carne Fraca*

The Federal Police launched *Operation Carne Fraca* (Operation “Vulnerable Meat” on 17th March against a scheme to “bypass” the official federal meat inspection routine and sell contaminated/spoiled/rotten products. The Federal Police affirm that some 40 meat packers bribed
federal employees to “make believe” inspections had been made – including well known firms such as Seara, Big Frango, Sadia, Perdigão, BRF and JBS [FriBoi]. Apparently, these meat packers had “laced” the bad beef with ascorbic acid in order the “disguise” the product’s “condition”. In all, 309 warrants were issued 27 permanent arrests, 11 temporary arrests 77 for coercive testimony and 194 “search-and-seize” warrants – issued by Judge Josegrei da Silva of the 14 federal circuit in Paraná. These meat packers had helped finance election campaigns for the PMDB and PP.

The wiretaps authorized for this investigation revealed conversations between Federal Deputy Osmar Serraglio (PMDB-PR) – recently named Justice Minister by Pres. Temer -- with the “Big Chief” (the head of this corruption scheme) where he complained to Serraglio about “pressures” by the authorities. However, the Federal Police found no evidence that the Minister had committed any crime.

Suspicions were raised when several shipments of meat from the PRF plant in Mineiros, Goiás, were blocked from entering Italy when local inspectors discovered the presence of Salmonella bacteria. On 13th March, wiretap flagged a conversation between BRF director for the Centro-Oeste region and an unidentified militant of the corruption scheme regarding the Italian inspectors. At that point Federal Judge Josegrei da Silva decided that it was time to act. Now, the Temer government is apprehensive regarding the possibility of more accusations against the Justice Minister that might appear.

Agriculture Minister Blairo Maggi determined that all the inspectors involved in this scheme be suspended and an investigation installed.

Most probably, the “reputation” of these Brazilian meat packers will be damaged and they should encounter difficulties in marketing their products in Brazil and overseas. The stocks of JBS and BRF declined 8% on 17th March. The Federal Police affirm that this “bad meat” even found its way in to school lunch programs.

1.4 – Eliseu Padilha investigated at STF

On 15th March, STF Judge Ricardo Lewandowski accepted the request by the PGR and opened a formal investigation of Pres. Temer’s Casa Civil Chief – Eliseu Padilha. However, this case has nothing to do with the Lava Jato investigation (although Padilha is reportedly accused in the plea bargaining testimony by the Odebrecht employees (See Item 1.1).

This case accuses Padilha of a crime against the environment in Rio Grande do Sul “destroy and damage an area of permanent preservation”. Padilha is a partner in a firm (Girassol Reflorestamento) that constructed a “wind farm” in Palmares do Sul, RS financed by BNDES. This project built a drainage canal to drain a swamp where the wind farm was to be installed. The damaged area has 665 hectares.

On Thursday, 16th March, STF Judge Ricardo Lewandowski accepted this accusation and the investigation was installed at the Supreme Court.

2 – FOREIGN RELATIONS & TRADE
2.1 – Brazil off the UN Security Council (at least until 2033)

On 16th March, Brazil decided not to become a candidate for a rotational seat on the United Nations’ most powerful body – the Security Council – and lost “space” (the initiative) to its neighbors in the Latin American region. This means that Brazil would have a “chance” to return to the UN Security Council in 2033-2034 and be absent from this important body for 22 years. The previous period of a “long absence” from this body was 20 years (1968-1988, mostly during the military government). Before that, Brazil was on the SC five times – 1946-1947, 1951-1952, 1954-1955, 1963-1964 and 1967-1968. More recently, Brazil had a seat on the Security Council also five times – (1988-1989 (Sarney), 1993-1994 (Itamar), 1988-1999 (Cardoso), 2004-2005 (Lula) and 2010-2011 (Lula-Dilma).

The Lula government (2003-2010) was very much engaged in international affairs and campaigned for the reform of the UN and especially the Security Council that would have five new permanent members (without veto powers) representing the five continents. During this period, Brazil tried to “mediate” the Israel-Palestine conflict and together with Turkey (in 2010) brokered an accord with Iran regarding the latter’s nuclear weapons ambitions. However, during the Dilma government (2011-2016) there was “zero interest” in occupying the Security Council seat. This is part of the “symptom” of Brazil shrinking role in the international sphere – a mixture of disdain and inability. Thus, Brazil has lost any capacity to influence this most important unit at the UN.


3 – REFORMS

3.1 – Street rallies anti-reforms

On 15th March, street rallies/demonstrations were mobilized in 19 state capitals by the PT, CUT and some “social movements” against the social security reform and the reform of labor legislation being deliberated by Congress. Some violence occurred. In Brasília, the MST and “vandals” attacked the Finance Ministry building and broke some windows and painted slogans on the internal walls on most of the seven floors of the building. Militants had difficulties reaching the center of most cities due to strikes by bus driver and metro operators. Many public and private schools closed in protest in some cities.

Massive street demonstrations in favor of the Lava Jato investigations are being mobilized for Sunday, 26th March.

3.2 – Repatriation – Second Phase

On 14th March, Congress finally approved the second phase of repatriation of funds held overseas by Brazilians (except for relatives of politicians). This “exception” had been included in earlier versions of this measure but was finally rejected. In order to “legalize” these funds (that should not be
from illicit sources), the person holding these funds must pay a 15% tax to the SRF plus a 20% fine. In the first phase, some R$ 47 billion were collected in 2016 and helped the Temer government reduce the fiscal deficit – and were divided between the federal state and municipal governments. Some R$ 30 billion are expected to be collected in this second phase.

4 – PRIVATIZATION & REGULATION

4.1 – Airport Concession Auctions

These four new airport concessions – Fortaleza, Salvador Florianópolis and Porto Alegre -- were processed by an auction held on Thursday, 16th March, at the Bovespa (São Paulo Stock market). The government received R$ 3.72 billion (23% above the expected amount. The results were as follows:

- Fortaleza: Fraport AG Frankfurt Airport Services (Germany)
- Salvador: Vinci Airports (France)
- Florianópolis: Zurich Airport International AG (Switzerland)
- Porto Alegre: Fraport AG Frankfurt Airport Services (Germany)

In spite of only three groups participating in this auction, the dispute for the airports of Porto Alegre and Florianópolis were “hotly” disputed – with voiced bids in the final part of each auction.

This time, the federal airport autarky Infraero was excluded from any “partnership” with the consortiums that won these concessions. In the previous five airport concessions, Infraero held 49% of the airport administrations that made the administration of these concessions “very complicated”. Because most of Brazil’s large construction firms have been badly damaged by the Lava Jato investigations, only three foreign consortiums entered this bidding process.

The auction for the concessions for the Galeão and Confins airports had five consortiums and the auction for Guarulhos, Brasília and Campinas had 11 groups.

5 - ECONOMICS

5.1 – March Inflation

On 17th March, the FGV announced that the preview for the March IGP-M was +0.08% versus +0.02%. The 12-month accumulation is now at +4.92% -- quite close to the Central Bank’s “target”.

http://g1.globo.com/economia/negocios/noticia/governo-arrecada-r-372-bilhoes-com-leilao-de-aeroportos.shtml
http://economia.estadão.com.br/noticias/geral,governo-arrecada-r-1-5-bi-com-leilao-de-quatrro-aeroportos,70001702414
5.2 – Moody’s modified Brazil’s “perspective”

On 15th March, Moody's altered its “perspective” for Brazil’s from “negative” to “stable” – but maintained Brazil’s rating at Ba2 (speculative grade). In February, S&P maintained Brazil’s perspective as “negative” and in November 2016, Fitch Ratings did the same.

According to Samar Maziad, Moody’s Brazil analyst -- “Expectations are that the risks of deterioration reflected [previously] in the negative perspective are now declining and the macro-economic conditions are stabilizing, while the economy presents signs of recovery, declining inflation and a fiscal scenario more clear”. (See Item 5.5)

Moody’s said that the beginning of Brazil’s recovery was expected in 2017 and we expect that renewed growth will stabilize around +2% and +3% in 2018.

Moody’s was the last risk agency to downgrade Brazil from investment grade into speculative grade in February 2016. S&P downgraded Brazil to “speculative” grade in September 2015, and Fitch followed suit in December 2015.

5.3 – Income inequality increased in 2016

Inequality in the distribution of income in measured by the Gini Index that varies between Zero and 1.0. The closer to Zero, more equality; and the closer to 1.0 more inequality.

Brazil’s “Gini Index” had been gradually declining since it increased from 0.5818 in 1992 to 0.6037 in 1993 and reached 0.5151 in 2014 and 0.5144 in 2015. However, because of the worsening economic recession and increasing unemployment, this Index increased to 0.5229 in 2016 – about the same result as posted in 2011. This data is compiled by the FGV Social.


5.4 – STF ➔ ICMS excluded from PIS and Confins calculations

On 15th March, the STF dealt the government a heavy blow that will impact federal tax collections by some R$ 250 billion (R$ 20 billion per year). This was a “split” 6-to-4 decision.

5.5 – Caged -- 35,612 new jobs created in February

On 16th March, the Ministry of Labor announced the Caged data for February ➔ the new jobs created out numbered the workers sacked – a net surplus of 35,612 new jobs created!!

This was the first time in 22 months that the Caged data was positive. The sectors that had the largest net new job creation were Services (50,613), Public Administration (8,280), Agriculture (6,201) and Industry (3,949).
**However** – most of the new jobs had lower salaries than the equivalent positions before the recession began.