Brazil Focus –
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Weekly Report
April 1-7 2017

Looking Ahead ➔ What to watch for?

- 7-8 April – Symposium – “BRAZIL: From Dictatorship to Democracy” ➔ Brown University, Providence, RI
- 7-8 April -- 2017 Brazil Conference, Harvard & MIT, Boston, MA
- 11-12 April -- Copom Meeting
- 12th April -- Heritage Foundation Index of Economic Freedom
- 12th April -- FGV to post IGP-10 ➔ +0.0% versus +0.0% in March
- 12th April -- IBGE: February retail sales ➔ % MoM & - % YoY
- 13th April -- Central Bank to release its IBC-Br for February ➔
- 14th April -- Good Friday – National Holiday in Brazil
- 16th April -- Easter Sunday
- 17th April -- Easter Monday – Holiday in Canada
- 19th April -- SRF, March tax collections ➔ R$ billion in March (- % YoY)
- 20th April -- IBGE to release the IPCA-15 ➔ +0.0%, versus +0.0% in March
- 21st April -- Tiradentes National Holiday [Martyr of Independence]
• 21-23 April -- Spring Meetings of IMF & World Bank Group, Washington, DC
• 22nd April -- Earth Day
• 23rd April -- Municipal holiday in Rio de Janeiro ➔ São Jorge
• 23rd April -- France – First round elections
• 24th April -- Caged data, jobs March 1st Q/2017
• 24th April -- Central Bank, February IBC-Br ➔ -0.0% MoM & -% YoY
• 24th April -- 2017 Brazil Summit, Brazilian-American C of C, New York, NY

1 - POLITICS

1.1 – TSE postponed deliberation Dilma-Temer case

On 4th April, the TSE was set to deliberate the accusations against the Dilma-Temer slate that in the 2014 elections they had received illicit campaign contributions. But ex-president Dilma Rousseff’s lawyer asked for more time (5 days) to study the case and prepare his arguments. The accusation lawyer (for the PSDB) agreed as did Pres. Michel Temer’s lawyer and the TSE prosecutor. The reporter, TSE Judge Herman Benjamin was forced to agree. The TSE also agreed to hear five additional witnesses. After this period, another TSE judge might pedir vistas (ask to study the case further) so that by the end of May the terms of two TSE judges will expire and Pres. Temer will name their substitutes. Thus, the possible outcome will probably exempt Temer, but might convict Dilma.

Detail: TSE President (and also STF judge) Gilmar Mendes is the co-organizer of seminar on the Judiciary “Constitution and Governance” in Lisbon on 18-20 April. The sponsoring institutions are Lisbon Law School and the IDP-Public Law Institute in Brasília. Mendes is the founder of the IDP.


Want more? Three of the firms sponsoring this event have cases on the Supreme Court agenda – on one which had Gilmar Mendes as reporter. Mendes told the press he sees no conflict of interest here.

http://politica.estadao.com.br/noticias/geral,patrocinadores-de-evento-de-gilmar-tem-acoes-no-stf,70001728431

⇒ Stay tuned!!

1.2 – Restructuring Brazil’s defense industry

During the opening of LAAD (Latin America Aerospace and Defense) in Rio on 4th April, Brazil’s defense industry, the president of Abimde-Associação Brasileira de Indústrias de Materiais de
Defesa e Segurança, Frederico Aguiar, affirmed that Brazil will increase investments in its defense industry and return to exporting equipment.


On 4th April, Embraer and Rockwell Collins agreed to work together on integrating their remote sensing, targeting and communications portfolios for joint defense sales.


Want more? On 4th April, BNDES announced that it had opened a special line of credit for the defense sector. The main “target” is the launching of Embraer’s KC-390 cargo plane that also serves as a refueling tanker. Embraer hopes to deliver the first of 28 planes to FAB in early 2018 and receive US$ 1.3 billion in royalties from FAB. In 2019, Embraer should begin exporting its KC-390 planes (perhaps some US$ 35 billion over a 20-year period. The problem is that in the recent budget cuts, the Defense Ministry had R$ 5.5 billion removed from its R$ 15 billion 2017 budget.

1.3 – “The End of Anarchy”

On 5th April, on a 7-to-3 decision, the STF decided that any work strike by any police force is unconstitutional ➔ Federal Police, Federal Highway Police, uniformed state police (PMs), state civil police and state fire fighters. The case in point was a strike by police in the state of Goiás, but the STF extended this decision (universalized) to ALL police forces in Brazil. This should quickly end the strike by the civil police in Rio and avoid the use of federal troops to substitute police forces in recent strikes.

Remember the case of the strike by PMs in the state of Espírito Santo earlier this year.

1.4 – Reapportionment

Two years after each ten-year census, the US automatically reapportions the number of seats held by states in the House of Representatives – with no complaints, screaming or shouting. It is considered “routine”. The “big winners” in this population reshuffle (internal migration) are always California, Texas and Florida.

The 1988 Constitution assured this “reapportionment” among states (except for those with the maximum and minimum numbers stipulated by this Constitution). However, the last time that a reapportionment was made was in 1985 (prior to the 1986 elections). The 1988 Constitution created the new state of Tocantins (8 deputies), and “upgraded” the federal territories of Amapá and Roraima to states (from 4 to 8 deputies each), and São Paulo gained an extra ten deputies. Now, the Senate CCJ is deliberating these changes to take effect for the 2018 elections for federal deputies. These calculations were based on the population of the 27 states as reported by IBGE in 2015.

<table>
<thead>
<tr>
<th>Seven States that would gain seats</th>
<th>Seven States that would lose seats</th>
<th>13 states that remain the same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pará (+4) 17=21</td>
<td>R. Janeiro (-3) 45=42</td>
<td>São Paulo (70)</td>
</tr>
<tr>
<td>M. Gerais (+2) 52=55</td>
<td>R.G. Sul (-2) 31=29</td>
<td>Maranhão 18</td>
</tr>
<tr>
<td>Amazonas (+2) 8=10</td>
<td>Paraiba (-2) 12=10</td>
<td>Goiás (17)</td>
</tr>
</tbody>
</table>
Bahia (+1) 39→40
Ceará (+1) 24→25
S. Catarina (+1) 17→18
R.G. Norte (+1) 8→9
Piauí (-2) 10→8
Paraná (-1) 29→28
Pernambuco (-1) 24→23
Alagoas (-1) 9→8
E. Santo (9)
Mato Grosso (8)
M. G do Sul (8)
Brasília (8)
Sergipe (8)
Tocantins (8)
Rondônia (8)
Acre (8)
Amapá (8)
Roraima (8)

The author of this proposal is Sen. Flexa Ribeiro (PSDB-PA) and the reporter in Sen. Antonio Anastasia (PSDB-MG). **Detail:** Pará stands to gain **four** deputies and Minis Gerais would gain **two** deputies.

Once approved by the Senate, the Chamber would have to concur. The seven states that would lose deputies have 160 votes – not enough to block this measure – in spite of a lot of “screaming & yelling”.

**1.5 – Corruption at the TCE-RJ**

Last week a federal court in Rio ordered the arrest of five of the judges on the RJ state Accounting Court (TSE-RJ) because of accusation of very corrupt decisions. But on 7th April, the STJ ordered their release but suspended them from the TCE-RJ for 180 days – via an injunction *(laminar)* issued by Judge Felix Fischer.

**1.6 – Fiscal Crisis**

On 7th April, Finance Minister Henrique Meirelles affirmed that in 2018 the deficit in Brazil’s public accounts should be R$ 129 billion and not R$ 79 billion. **Also,** without the Social security reform, the INSS deficit will reach R$ 202.0 billion in 2018.

**2 – FOREIGN RELATIONS & TRADE**

**2.1 – March trade balance**

The March trade surplus was US$ 7.145 billion – the best result for March since this data series began in 1989. Exports were US$ 20.08 billion (+20.1% YoY) and imports were US$ 12.94 billion (+7.1% YoY). The 1st Q/2017 trade surplus is now US$ 14.42 billion.

In spite of **Operation Carne Fraca**, meat exports were up by +4.4% YoY to US$ 404 million.

**2.2 – Ecuador election**
In spite of accusations of fraud in the voting process in the second round election for Ecuador’s president held on 2nd April, the CNE-National Election Council declared that the “official” candidate \((\text{AP-} \text{Alianza País})\), Lenin Moreno (the Vice-President of outgoing Pres. Rafael Correa had received 52.16% of the valid vote and the Opposition candidate Guillermo Lasso (CREO- \text{Creando Oportunidades}) had received 48.84% -- a difference of 229,400 votes.

However, one week after the election, Lasso continued to contest this result, alleging fraud in the tallying of the vote in many precincts. International election observers certified that the election had been conducted correctly.

Photo: Reuters

Guillermo Lasso                    Lenin Moreno

2.3 – Swedish Royal Couple visited Brazil

On 2nd April, Swedish King Carlos Gustave XVI and Queen Silvia arrived in São Paulo (for a five-day visit, 3-7 April) for the meetings of the Sweden-Brazil Business Council. Pres. Temer and First Lady Marcela traveled to SP to participate in final session of these meetings. Also present were former President Fernando H. Cardoso (PSDB), São Paulo Governor Geraldo Alckmin (PSDB), SP Mayor João Doria (PSDB) and SP Senator José Serra (PSDB, plus Ministers Osmar Terra (Social and Agrarian Development), Marcos Pereira (MDIC), Antonio Imbassahy (Sec. of Government), Roberto Freire (Culture and Ellen Gracie (ex-STF). In 2013, King Gustave visited SP.

Photo: Marcos Alves/O Globo
On 4th April, First Lady Marcela Temer presided over the Global Child Forum that had its first meeting in South America. This is an initiative by Sweden and UNICEF with the active participation of Queen Silvia. On 6th April, in Brasília the King and Queen made an official visit to the Brazilian capital, and Pres. Temer hosted a luncheon at Itamaraty. Queen Silvia’s mother was Brazilian and thus she holds dual nationality.

2.4 - Reelection Amendment in Paraguay

On 31st March, the Paraguayan Senate approved a constitutional amendment allowing one consecutive reelection for the President. Before the Lower House could deliberate this measure, an angry mob attacked the Congress building and it was partially burned before the fire fighters (and police) arrived. Pres. Horacio Cartes dismissed the national security chief and the police chief in Asuncion.

The Opposition parties Frente Guasú (former President and now Senator Fernando Lugo) and PLRA-Partido Liberal Radical Autentico (Efrain Alegre) accepted to participate in dialogue with the current government – Partido Colorado (Pres. Horacio Cartes).

2.5 – World War I

April 6 marked the 100th anniversary of the US entry into the “Great War”. On 6th April 2017, US Pres. Woodrow Wilson sent the American Expeditionary Force to France in support of the Allied forces France and the UK against Germany-Austria and Turkey.

3 – REFORMS

3.1 – Political Reform - 2017
On 4th April, Dep. Vicente Cândido (PT-SP) presented his report to the Chamber special committee on political reform. In order to be applied to the 2018 elections, any “reforms” must be approved by Congress and published in the federal daily record before 5th October 2017.

This time (2017), the proposed reforms will be voted on individually and not as a “package” as in previous years. Among reforms proposed are: 1) Repeal of Constitutional Amendment 16 -- the end of reelection for executive office (President, Governors and Mayors); 2) These executive offices would have five-year terms; 3) Vices would be eliminated (Vice-President, Vice-Governor and Vice-Mayor) 4) The election system for deputies and city councils would be closed list proportional representation; 5) Simultaneous candidacies would be allowed (for Senator & Deputy and Governor & Deputy); 6) A quota system for women (either 50% or 33%) on these closed lists; 7) Coalitions would be prohibited for proportional elections; 8) A threshold barrier of 2% would be adopted; 9) A fund for the “promotion of democracy” (R$ 2.2 billion) would be created (to help finance elections); and 10) The publication of election polls would be prohibited seven days before each election.

Comments:

⇒ Out of phase mandates for president (five years) and congress (four years) was used in the 1946-1964 period with very negative results that led to the resignation of Pres. Jânio Quadros in August 1961. Probably will not be approved.
⇒ The end of reelection will be opposed by the current governors and mayors who plan to seek reelection in 2018 and 2020, respectively. No chance of being approved.
⇒ The elimination of the office of Vice-President – when the President travels overseas, the Chamber President would temporarily assume the Presidency (as is currently the case, because Pres. Michel Temer does not have a Vice-President. Probably will not be approved.
⇒ Simultaneous candidacies were allowed in the 1946-1964 period and a “prominent” politician could run for Governor or Senator and also pull in a large number of votes for deputy. Probably this will be approved.
⇒ In principle, the adoption of closed-list PR would strengthen political parties (voters could only vote for a party list and not individual candidates on the open-list). However, the problem is how (and by whom) these pre-ordered lists would be organized by each party – by a primary for all registered voters (of each party), by a state party convention, by each party’s state executive committee, or by a small group of caciques – 4 or 5 party leaders (all men). The other “current problem” is that many deputies accused in the Lava Jato investigation would like to “hide” within the closed list. However, with a 50% quota for women, these “Lava Jato men” would have fewer slots near the top of the list, and parties with no Lava Jato names “hidden” within their lists will use this in their TV propaganda and show the names on the lists of their opposition parties. It is possible that this measure might be approved. Dep. Henrique Fontana (PT-RS) presented an interesting amendment that would oblige all parties to conduct primaries with all their party members in each state to organize their respective closed lists.
⇒ The most important advantage of the closed-list PR system would be a rigorous quota system for women – either 50% (women would occupy the even numbers of the list and the men in the uneven numbers; or one third (like in Argentina) with women in at least the 3rd, 5th and 7th positions on each arty list. Probable this will be approved (if the closed-list system is approved).
⇒ The prohibition of election coalitions in PR elections would eliminate some 15 or 16 micro- and small parties with may fusions and incorporations with larger parties. A Congress with 9 or 10 parties would enhance “governability”. This probably will be approved.
The “threshold barrier” proposed is not a real barrier as in Germany, where if a party does not receive 5% of the valid vote it does not elect any deputies. The Brazilian “version” would require 2% of the valid vote for a party to have access to the party fund and to free TV/Radio propaganda time – but their deputies would be seated. This would cut off the “life blood” of these small parties and their deputies would probably switch to other larges parties. This probably will be approved.

This “democracy fund” would run counter to the austerity efforts of the Temer government. If approved, Pres. Temer would probably veto this point.

The prohibition of publication of election polls has been approved by Congress several times but annulled by the STF as unconstitutional (freedom of expression). If approved, his probably would be vetoed by Pres. Temer or the STF.

3.2 – Social Security Reform

In an effort to approve its proposal for the Social Security Reform, the Temer government is “negotiating” modifications that would reduce the impact of this reform. Initially, the proposal would have saved R$ 678 billion in the social security area over ten years, but the recent “modifications” have reduced this projection by R$ 115 billion.

4 – PRIVATIZATION & REGULATION

4.1 – Petrobras sold gas pipelines

On 4th April, Petrobras concluded the sale of its subsidiary NTS-Nova Transportadora do Sudeste that operates gas pipe lines in Southeast Brazil to FIP, an investment fund managed by the Canadian Brookfield – for US$ 4.23 billion. Up front, Petrobras received US$ 2.59 billion for 90% of the shares of NTS and US$ 1.64 billion in convertible debentures in shares issued by NTS. The remaining US$ 850 million will be paid over a five-year period. The same day, FIP sold 7.65% of NTS shares to Itausa. This operation is part of Petrobras’ divesture of US$ 34.6 billion in assets until 2018; US$ 13.6 billion have already been sold off.

ANP announced on 4th April that in February Brazil produced 2.676 million barrels per day of petroleum, + 14.6% YoY and +0.4% MoM.

4.2 – Government to sell hydro installations

Because their concessions have expired, the federal government published a tendering on 4th April announcing the sale of Cemig and Celesc installations in September – for an estimated US$ 12 billion. As expected the Government of Minas Gerais has filed a suit at the STF against this action. The Finance Ministry has already included the proceeds from this auction in the 2017 accounts receivable for the federal government.

5 - ECONOMICS
5.1 – March IPCA

On 7th April, IBGE released data for its March IPCA ➜ +0.25% 0.08 p.p. less than the February IPCA (+0.33%). This was the lowest March IPCA since 2012. In March 2016, the IPCA was +0.43%. The IPCA for 1st Q/2017 was +0.96%, the lowest first quarter rate since the Plano Real in 1994. The 12-month accumulation of the IPCA now stands at +4.57% – very close to the +4.5% “target” set by the Central Bank. The 12-month IPCA has been declining steadily since the 8.97% posted in August 2016. The highest 12-month accumulation was Fortaleza (+6.85%), and the lowest was Goiânia (+2.56%)

IGP-DI – Constructed by FGV-Rio, this index posted +0.38% in March

5.2 - Industrial Production

IBGE released its industrial production data for February 2017 on 4th April that showed a slight increase of +0.1% MoM and -0.8% YoY. In February, the production of capital goods was up by +2.9% YoY while consumer durables were up by +19.8% YoY. In January-February 2016, industrial production declined by -11.5% but in the same period in 2017 IP increased by +0.3% YoY. The 12-month accumulation is now -4.8%.

5.2.1 – New car sales increased in March

On 3rd April, Fenabrave announced that sales of autos, trucks and busses were up by +5.5% YoY and +39.4% MoM in March – the first such positive result in 26 months – 189,143 units were sold. Remember ➜ March had five more working days than February (due in large part to the Carnaval holiday. Reportedly, auto sales in March increased due to sales to businesses/firms.

5.2.2 – 1st Q/2017

On 6th April, Anfavea announced that in 1st Q/2017, 609,844 units were produced, up by +24% YoY versus 497,706 units in the same period in 2016. 1st Q/2017 exports were up by +69.7%, from 101,789 units in 2016 to 172,693 units in 2017. “The best quarter for exports in history,” exclaimed Anfavea.

5.3 – January GDP declined (FGV)

On 3rd April, Ibrc/FGV released its calculation for Brazil’s GDP in January 2017 ➜ a decline of -0.67% MoM and -1.2% YoY. For the quarter ending in January 2017, family consumption was down by -2.6% YoY, but the consumption of consumer durables was up by +0.5% -- the first such positive result in 32 months. Last week the Central Bank released its IBC-Br for January that showed a retraction of -0.26% MoM and -0.79% YoY.

5.4 – Concentration in banking sector
In 2016, the concentration (market share) of Brazil’s four largest banks – BB, CEF, Itau and Bradesco – increased from 75.8% in 2015 to 79.0% in 2016. In 2016, Bradesco incorporated HSBC. This market share concentration is “off limits” for any intervention by CADE.