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

- 26-30 June -- 15º FLIP ➔ International Literary Festival in Paraty, RJ
- 27ª June -- June IGP-M ➔ +% ➔ +% for 12-month period
- 27ª June – “Brazil Briefing”, AS-COA, 680 Park Ave., NYC
- 27ª June – Federal Prosecutors vote to select three-name list for new PGR
- 27ª June -- IBGE: April retail sales ➔ +0.0% MoM but -% YoY
- 27ª June -- June IGP-M ➔ +% ➔ +% for 12-month period
- 27ª June – “Election” for new PGR (three-name list), 1,300 prosecutors vote
- 27-28 June -- Copom meeting
- 29ª June -- Brazil-US Business Council, Mid-Year meeting, Washington, DC
- 30ª June -- Public Accounts data for May
- 3ª July -- Trade balance for June ➔ US$ billion & 1º semester ➔ US$ billion
- 4ª July -- New car sales June, units (+ % MoM), in 1º semester (- % YoY)
- 4ª July -- US Independence Day [national holiday]
- 5ª July -- IBGE industrial production for May ➔
• 6th July -- FGV to announce IGP-DI for June ➔ +%; +% in 2017 & +% 12-month
• 7th July -- Canada Day
• 7th July -- IBGE to release IPCA inflation data for June ➔ +0 % versus +0. % in May
• 9th July -- State Holiday in SP – [“Commemorate” defeat in the 1932 Revolution]
• 9th July -- Argentine Independence Day
• 12th July -- IBGE – Retail sales in May ➔ - % MoM & - % YoY
• 13th July -- Services Sector in May - % MoM & - % YoY
• 14th July -- Central Bank to release its IBC-Br for May ➔ - % MoM & - % YoY

1 - POLITICS

1.1 – Labor Legislation Reform defeated at CAS

On 20th June, the Labor Legislation Reform was defeated that the Senate CAS-Social Affairs Committee on a 10-to-9 vote. This proposal had already been approved by the Senate CAE-Economic Affairs Committee by a tight vote on 13th June. The market reaction was quick. That same day the Bovespa (SP stock market) was down (by 2%) and the FX rate increased (+1.29%)

![Photo: Aliton de Freitas/Agência O Globo](image)

**Opposition Senators celebrate their victory in the CAS**

This was considered a “miss-calculation” by government leaders in the Senate and a “slipup”. They had anticipated a victory of 11-to-8. They had initially included Senators Hélio José (PMDB-DF), Eduardo Amorim (PSDB-SE) and Otto Alencar (PSD-BA) as favorable votes (from the Temer support coalition), especially the PSDB senator. Last week the PSDB decided not to bolt the Temer support coalition and vote as a block in favor of the reforms. Hélio José's vote was seen as under the (negative) influence of Sen. Renan Calheiros (PMDB-AL). Also, they had counted another positive vote by Sen. Sérgio Petecão (PSD-AC) – who did not show up to vote, but his suplente Otto Alencar voted “No”.

The breakdown of the CAS vote was as follows:

**In Favor (9):**
- Waldemir Moka (PMDB-MS)
- Elmano Férrer (PMDB-PI)

**Against (10):**
- Hélio José (PMDB-DF)
- Ângela Portela (PDT-RR)
Airton Sandoval (PMDB-SP)  Humberto Costa (PT-PE)
Dalfrio Beber (PSDB-SC)  Paulo Paim (PT-RS)
Flexa Ribeiro (PSDB-PA)  Paulo Rocha (PT-PA)
Ricardo Ferraço (PSDB-ES)  Regina Sousa (PT-PI)
Ana Amélia (PP-RS)  Eduardo Amorim (PSDB-SE)
Cidinho Santos (PR-MT)  Otto Alencar (PSD-BA)
Vicentinho Alves (PR-TO)  Lidice da Matta (PSB-BA)
Randolfo Rodrigues (Rede-AP)

Immediately, Pres. Temer’s office researched all the federal appointments requested by Sen. Hélio José and on 21st June two of these appointees were sacked and the others will be sacked if the Senator votes against the Labor Legislation reform in the full Senate vote. After the Senator’s very angry and accusatory reaction, yet a third of his appointees were sacked on 22nd June. **Want more** sackings, Senator? Then, continue your nasty comments!

Secretary-General of Temer’s Presidency, Moreira Franco expressed “surprise” regarding the negative vote by *tucano* Sen. Eduardo Amorim (PSDB-SE), in spite of two other PSDB senators voting “Yes”. Moreira Franco said that the “undefined” posture of the PSDB was to blame. The PSDB National President, Sen. Tasso Jereissati (CE) replied that the Temer government was to blame – “They took all the government articulation team along to Moscow and ‘forgot’ the CAS vote on Tuesday”.

On 21st June, this proposal went to the Senate CCJ-Constitution and Justice Committee (the Senate “Gatekeeper” committee. This time the reporter was Sen. Romero Jucá (PMDB-RR). The members of the CCJ will have one week to study this report and the CCJ vote will occur 27th June. Only then will this proposal go to a vote by the full Senate.

This proposal is scheduled to be voted on by the full Senate on 28th June.

**Want more?** On 23rd June, a group of TEN senators declared “total independence” *vis-à-vis* the Temer government. Some of their parties have already left the government coalition (PDT, PSB, PPS).

Elmano Perrer (PMDB-PI)
Ana Amélia (PP-RS)
Cristovam Buarque (PPS-DF)
Armando Monteiro (PTB-PE)
Roberto Muniz (PP-BA)
Acir Gurgacz (PDT-RO)
Telmário Mota (PTB-RR)
Lasier Martins (PSD-RS)
Alvaro Dias (PV-PR)

1.1.2 – Composition of Senate CCJ

The proposed Labor Legislation Reform will be deliberated by the CCJ as of 28th June.
**Opposition Senators (5):**
Jorge Viana (PT-AC)
José Pimentel (PT-CE)
Pátima Bezerra (PT-RN)
Paulo Paim (PT-RS)
Acir Gurgacz (PDT-RO)

**Socialism & Democracy (3):**
Ant. Carlos Valadares (PSB-SE)
Roberto Rocha (PSB-MA)
Randolfe Rodrigues (Rede-AP)

**PMDB (7):**
Jader Barbalho (PMDB-PA)
Edison Lobão (PMDB-MA)
Eduardo Braga (PMDB-AM)
Simone Tebet (PMDB-MS)
Valdir Raupp (PMDB-RO)
Marta Suplicy (PMDB-SP)
José Maranhão (PMDB-PB)

**Social-Democrat Bloc (5):**
Antonio Anastasia (PSDB-MG)
Flexa Ribeiro (PSDB-PA)
Ronaldinho Gaucho (DEM-GO)
Maria do Carmo (DEM-SE)
Ricardo Ferraço (PSDB-ES)

**Democrat-Progressive Bloc (3):**
Lasier Martins (PSD-RS)
Benedito de Lira (PP-AL)
Wilder Moraes (PP-GO)

**Moderate Bloc (3):**
Armando Monteiro (PTB-PE)
Eduardo Lopes (PRB-RJ)
Magno Malta (PR-ES)

Of these 26 senators, the 8 Opposition senators should all vote **NO**. Among the 7 PMDB senators, all should vote **YES** – but Sen. Eduardo Braga is running for Governor in a special by-election in Amazonas; if he is absent, the **Suplente** – Sen. Roberto Requião (PMDB-PR) most certainly will vote **NO**. The five Social-DEM senators should all vote **YES**. The six remaining senators in the Dem-Progressive & Moderate blocs are considered “Unknown” as to how they might vote.

**Thus** – the CCJ breakdown could be **⇒** sure YES votes (12), sure NO votes (8) and “Unknown” votes (6). At this point, the final vote is not assured as favorable to this reform.

**⇒ Stay tuned!!!**
1.2 – Aécio Neves

The first working group at the STF began deliberating the request for an arrest warrant for Sen. Aécio Neves (PSDB-MG) on 20th June. However, this decision was postponed until a request by Neves’ lawyers (that this decision should be taken by the full STF) is decided. **However**, this five-judge working group determined that Aécio’s sister, Andrea Neves, Mendherson de Souza Lima (a staffer in the office of Sen. Zézé Perrela (PMDB-MG) and Aécio’s cousin Frederico de Medeiros be released from prison to house arrest (wearing GPS ankle brackets).

1.3 – Judge rejected Temer’s law suit

Very quickly, on 20th June, Judge Marcos Vinicius Reis Bastos of the 12th federal circuit in Brasília rejected one of Pres. Temer’s law suits against Joesley Batista’s affirmations in last weekend’s *Época* cover story (interview). The judge affirmed that the content of this interview was based on the plea bargaining testimony done by Batista with federal prosecutors that was already incorporated by the STF and there was no intent to “defame” *animus diffamandii* the President. The second law suit seeking financial compensation is still under deliberation by another federal judge in Brasília.

**More Joesley**  ➔ Reportedly, Joesley Batista told the Federal Police that Pres. Temer “pressured” the BNDES and its then President Maria Silvia Bastos Marques to “revise” [change] the bank’s decision not to approve the restructuring of the JBS/J&F corporate organization in the US. Maria Silvia resigned as BNDES President on 26th May. Joesley used Geddel Vieira Lima as his intermediary to pressure Temer to change the BNDES decision. This case was mentioned in the clandestine recording made by Batista of his conversation with Pres. Temer at the Jaburú Palace on 7th March.

1.3.1 – AGU & TCU vs. JBS

This week, the “news” in Brazil is that the JBS group plans to sell off over R$ 15 billion in assets in Brazil to alleviate the group’s debts. As a result, on 21st June, the AGU requested that the TCU immediately block (freeze) all the assets of JBS and of its partners (owners) because JBS has already caused R$ 850 million in losses for the BNDES.

**What’s for sale??**  Vigor – dairy products; Alpargatas – footwear; Eldorado – cellulose; Flora – hygiene and cleaning products; Banco Original – take over of Banco Matone; Ambar – projects in the energy sector; and Canal Rural – communications platform.

Judge Ricardo Augusto Soares of the 10th federal civil circuit in Brasília vetoed the sale of JBS shares in subsidiaries in Paraguay, Argentina and Uruguay for US$ 300 million, saying “this sale is premature”. This sale was going to a JBS competitor – Minerva.
This request by the AGU at the TCU was VERY bad news for 39 employees at the BNDES who are already under investigation by the TCU regarding their “conduct” regarding the investments by the BNDES in the JBS group. These employees could also have their assets blocked by the TCU.

1.4 – STF decided two important issues

On 21-22 June, the Supreme Court decided two very important issues: 1) The validity of the plea bargaining testimony by Joesley Batista to federal prosecutors; and 2) Whether the JBS case should remain with the Lava Jato reporter, Judge Edson Fachin.

These two questions are very important for past and future investigations (especially Lava Jato) if the STF could “intervene” to decide the validity of plea bargaining testimony already accepted at the STF. Both questions were aimed at destroying the Lava Jato investigation, and this vote clearly showed “who is who” on the Supreme Court vis-à-vis the Lava Jato (and other similar investigations).

First, Judge Edson Fachin presented his report on these two questions and then voted in favor of the validity of the plea bargaining testimony and his continuation as reporter on the JBS case. Then, SIX other judges cast their votes (in the reverse order of seniority) – and ALL followed Fachin’s vote ➔ Alexandre de Moraes, Luís Roberto Barroso, Rosa Weber, Luiz Fux, Dias Toffoli and Ricardo Lewandowski. This comprised a majority vote of 7-to-zero. At this point, just before 6:00 p.m., the session was suspended until next week ➔ 28th June. By the order of seniority, the last four judges to vote will be Gilmar Mendes (probably the first negative vote), Marco Aurélio Mello, Celso de Mello and the STF President Carmen Lúcia.

1.5 – Federal Police audit Joesley Batista recording

On 23rd June, the Federal Police technical unit released its audit of the tape recording made by Joesley Batista of his conversations with Pres. Temer on 7th March. The conclusion was that this recording was not edited or manipulated. Thus, next week the PGR can submit his denunciation of Temer to the STF that will transmit same to the Chamber of Deputies to authorize the investigation at the STF.

2 – FOREIGN RELATIONS & TRADE

2.1 – Maia assumed the Presidency

Pres. Michel Temer delayed his flight to Russia in order to finalize a video commenting on the accusations by Joesley Batista in his interview with Época news magazine (owned by Globo).


Last week it was Veja that carried a bombastic cover story and this week it was Época’s turn. With this sequence, next weekend should be the turn for the third weekly news magazine ➔ IstóR.
Also, Temer had to finalize the law suits with his lawyers against Joesly Batista.

Thus, on Monday afternoon, Pres. Temer finally embarked on his flight to Moscow. Later he will visit Norway. During the President’s absence, the President of the Chamber of Deputies, Rodrigo Maia (DEM-RJ) until Temer returns to Brazil.

2.2 – Pres. Temer visits Russia & Norway

On Monday afternoon, Pres. Temer embarked for a trip to Russia and Norway.

2.2.1 - Russia

After one refueling stop, Pres. Temer’s plane arrived in Moscow on Tuesday 12:17 p.m. (local time) – 20th June – “just in time” for his first encounter at 3:00 p.m. Temer was not received at the Moscow airport by the Russian President, Wladimir Putin nor the PM, Dimitri Medvedev – but by a low-level Russian diplomat. Perhaps the Russians were offended by the agenda distributed by Temer’s office that said he was to visit the “República Federativa Soviética da Russia” that had been dissolved in 1991. Also, the Russians have not yet swallowed (or digested) the impeachment of then President Dilma Rousseff who had maintained close relations with Russia. The Russians perceive that Pres. Temer is working to revive good relationships with the US – that Pres. Dilma had “downgraded”.

Temer’s entourage included ➔ Minister of Foreign Relations Aloysio Nunes Ferreira (who arrived from China), Secretary of Government Antonio Imbassahy, Environment Minister Sarney Filho, Sen. Paulo Bauer (PMDB-SC), Dep. Darcídio Perondi (PMDB-RS), Dep. Atila Lins (PSD-AM) and Dep. Vinicius Carvalho (PRB-SP). Temer stayed at the Moscow Ritz Carlton in the same suite used by Donald Trump during his visit in 2013. Several Brazilians from the banking, agri business, civil construction and pharmaceutical sectors were present.

That Tuesday afternoon, Temer visited the Duma (lower house) and met with its President Dep. Vyacheslav Volodin and the Vice Prime Minister Arkady Dvorkovich. The final Tuesday event was to assist the final competition of candidates for the Bolshoi Ballet.

Photo: Sergie Karpukhin/AP
Presidents Putin & Temer

2.2.2 - Norway

Pres. Temer and his entourage arrived in Oslo on 21st June for a two-day visit. “Wham-bam” – on the first day of this visit, Brazil’s environment minister Sarney Filho received bad news from his counterpart – Norway’s Environment Minister Vidal Helgeser – that Norway had reduced by 50% its contribution to the Fundo da Amazônia (a reduction of some R$ 200 million). Helgeser asked Sarney Filho if the rate of deforestation would be reduced in Brazil and he responder “Only God knows” and then blamed this “problem” on the previous PT government of Dilma Rousseff. Norway is the largest contributor to this Fund and has contributed some US$ 1.1 billion already.


This policy change did not come without a “prior warning”. Several days before Temer’s visit to Norway, Helgeser issued a stern warning published in the Folha de SP on 21st June.


This warning was also reported by the OESP on 21st June.


Carlos Rittl, of the Climate Observatory was very “caustic” – “Temer’s alliance with the Rural Block in Congress has been very expensive. Brazil’s environment has become a ‘bargaining chip’ in the negotiations by Temer to maintain his mandate”.

Want more? An article in the OESP (published on 22nd June) revealed that Norway is investigating ex-Petrobras director Jorge Zelada who was linked to the PMDB (party of Michel Temer). The Norwegian prosecutors are investigating whether Norwegian firms (Sevan Drilling, for example) paid bribes (via Zelada and a false firm TVP Solar based in Geneva) to obtain contracts with Petrobras.

Once again, Pres. Temer committed a diplomatic gaffe in a joint news conference with the Norwegian PM Erna Solberg where he thanked the generous hospitality of King Harald V, the King of Sweden. Temer became “confused” after a series of aggressive questions by the PM about corruption in Brazil, Amazon deforestation, etc. Previously, Temer has quick “protocol” encounter with King Harald V who (at age 76) made a four-day to Yanomami village in April 2013.
However, at several points during his Oslo agenda, Pres. Temer was confronted with negative street demonstrations against him and against Brazil.

2.3 – Maluf convicted (in Paris)

On 20th June, A second level appeals court in Paris convicted Dep. Paulo Maluf (PP-SP) to three years in prison and a 725,000 euro fine for money laundering (of 1.8 million euros) between 1996 and 2003. In addition, 27,000 euros were confiscated in Maluf’s room in the Plaza Athénée hotel in Paris on 24th July 2003 when he and his wife, Sylvia, were “detained” when they tried to withdraw a large volume of euros from the Credit Agricole bank in Paris. This account had been opened in the name of Ms. Sylvia Maluf 6 months before via a US$ 1.5 million deposit from the Blackbird Foundation created by her son, Flávio Maluf in Liechtenstein. When the Maluf couple was “detained” in Paris (in 2003), they alleged that the funds in this account were part of her inheritance from her father – but the French investigators discovered otherwise and this account was blocked. These French investigators also discovered that Ms. Maluf had another account in Paris (Morgan Guaranty Trust Co., now JP Morgan Chase) in the 1990s (closed in 2000) that had received some US$ 5 million via the Bahamas and Switzerland. The French police allege that the Maluf family “systematically laundered” more than US$ 7 million between 1996 and 2003. Allegedly, these funds came from corruption on public works projects when Maluf was Mayor of SP. Their son, Flávio Maluf was sentenced to three years in prison and a 200,000 euro fine. Sylvia Maluf was also sentenced to two years in prison plus a 100,000 euro fine. **Want more?** In late May 2017, the STF sentenced Paulo Maluf to 8 years in prison and the loss of his mandate as federal deputy, but he has “appealed” this sentence.

Of course, the Maluf family will appeal to the French Supreme Court but if their conviction is maintained that would face prison if they set foot in France and would be placed on the Interpol arrest list if the set foot outside of Brazil.

2.4 – Petrobras reached last individual accord in US

On 19th June, Petrobras reached a final accord with the last individual investor in the US that had filed suit regarding losses suffered due to the decline in the value of Petrobras stocks after the *Petrolão* bribe scandal was revealed. However, this case involving The Vanguard Group (One of the largest investors in Petrobras stocks) was the only suit filed outside of the Federal District Court in NYC – in the Federal District Court in Philadelphia, PA. Although the value of these settlements was not revealed, Petrobras “provisioned” US$ 372 million for 2016 and US$ 445 million for 2017.
However – Petrobras still has a large class action case pending in NY courts that might cost some US$ 10 billion.

2.5 – Braskem to invest US$ 675 million in US

On 22nd June, Braskem (Brazil’s largest petrochemical produced) announced that it plans to invest US$ 675 million to construct its sixth installation in the US (polypropylene) – in La Porte, Texas and should go online in 1st Q/2020.

In December 2016, Braskem signed a leniency agreement with federal prosecutors regarding its participation in the Lava Jato corruption scandal and promised to pay US$ 957 million as part of this global accord.

2.6 – Flávia Piovesan elected to CIDH

On 21st June, during the meeting of the OAS General Assembly in Cancun, Mexico, Brazilian human rights specialist Flávia Piovesan was elected to a three-year term as a member of the OAS’ CIDH-Interamerican Human Rights Commission. She replaced her Brazilian colleague Paulo Vannuchi. Prior to her election, three months ago Brazil paid up its US$ 8 million in arrears with the OAS and paid the 2017 contribution ((US$ 10.6 million in advance.

See ➔ https://oglobo.globo.com/mundo/eleita-na-oea-flavia-piovesan-quer-foco-contra-desigualdade-violencia-21509726

Flávia Piovesan received her BA (1990), MA (1993) and Doctorate (1996) in Law from PUC-SP and was a visiting fellow in the Human Rights Program at Harvard University (1996, 2000 and 2002), at the Centre for Brazilian Studies, Oxford University (2005) and at the Max Planck Inst. (2007-2008 & 2009-2011). She also lectured on human rights at the Doctoral programs at the Pablo Olavide University in Seville and the University of Buenos Aires. In May 2016, she was appointed by Pres. Michel Temer to be Special Secretary for Human Rights (he was her advisor at PUC-SP). In March 2017, she was chosen as the Brazilian candidate for the vacant slot at the CIDH.

2.7 – USDA suspended Brazilian beef imports

On 22nd June, USDA announced that all “fresh” beef imports from Brazil would be suspended until the “limits” of sanitation inspections returned to normal. US Dept. of Agriculture inspectors had rejected an average of 11% of these Brazilian beef shipments when the normal level is less than 1%. On 20th June, Brazil announced that the beef exports to the US from five meat packers had been suspended ➔ too late! The US Secretary of Agriculture, Sonny Perdue, said that “Brazil is a long time partner, but the protection of the American consumer is more important”.

Want more? The day after, Canada also prohibited fresh beef imports from Brazil.

3 – REFORMS

Nothing this week
4 – PRIVATIZATION & REGULATION

4.1 - Eletrobras

In a conversation clandestinely recorded by Eletrobras labor union leaders with Eletrobras President Wilson Ferreira Junior affirmed that “40% of Eletrobras executives are “useless”. His plan is to reduce the number of employees from 23,000 to 12,000 by the end of 2017.

Want more? EPE and Ancel indicated that the government has abandoned plans to construct two new hydro electric installations on the upper Rio Negro.

5 - ECONOMICS

5.1 – June Inflation

IGP-M ➔ On 19th June, the FGV announced its second IGP-M for June ➔ -0.61% deflation.

IPCA-15 ➔ On 23rd June, IBGE released its IPCA-15 that measured inflation between 16th May and 15th June ➔ +0.16% versus +0.24% in May. The 12-month accumulation is now at +3.52%. This June result was a bit above the +0.12% prediction by 25 analysts surveyed by Valor Data.

5.2 – Federal Revenues in May, worst since 2010

On 20th June, the SRF released its tax collections data for the month of May ➔ R$ 97.69 billion (-0.96% YoY) – the worst month of May since 2010. The January-May accumulation now stands at R$ 544.5 billion (+0.35% YoY). The worst decline was in the IRPJ and CSLL (-13.5% YoY). Other federal tax collections also declined YoY ➔ IPI (-18.51%), PIS/Confins (-1.36%) and IOF (-7.93%). The problem continues to be the slow reactivation of the economy, especially the industrial and retail sales sectors. The positive GDP result in the 1st Q/2017 was produced by the record production in the agriculture sector and increased exports – both contribute little to federal revenues. AS seen below (Item 5.3) the agriculture sector was the main “driver” in new job creation in March and April.

5.3 – Caged ➔ 34,200 new jobs created in May

On 20th June, the Ministry of Labor announced the Caged data for May ➔ 34,200 new jobs created versus 72,600 jobs lost in May 2016. This was the best May since 2014. In April 2017, 59,800 new jobs were created. The increased employment in the agriculture sector was the main force behind these April & May results. So far in 2017, 48,500 new jobs were created. In May, two sectors lost jobs ➔ retail sales (11,200) and civil construction (4,000).
5.4 – FX flows positive in 2017

On 21st June, the Central Bank announced that in 2017 (through 16th June) the entry of US$ exceeded the exit by US$ 8.378 billion. In the same period in 2016, the FX flow was negative ➔ -US$ 8.201 billion.