Brazil Focus –
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Weekly Report
July 1-7 2017
Looking Ahead ➔ What to watch for?

- 7-8 July – G-20 Summit in Hamburg, Germany
- 9th July -- State Holiday in SP – [“Commemorate” defeat in the 1932 Revolution]
- 9th July -- Independence Day
- 11th July – Probable date for Senate to approve Labor Legislation Reform
- 12th July -- IBGE – Retail sales in May ➔ - % MoM & - % YoY
- 12th July -- Raquel Dodge should be cross-examined by the Senate CCJ
- 13th July -- Services Sector in May - % MoM & - % YoY
- 14th July -- Central Bank to release its IBC-Br for May ➔ - % MoM & - % YoY
- 14th July – Congressional recess should begin
- 21st July -- IBGE to release July ICPA-15 inflation data ➔ +0.% versus +0.%% in June
- 22nd July -- SRF ➔ June tax collections in June R$ billion, versus R$ billion in May
- 26-27 July – Copom meeting
- 27th July -- Caged data ➔ net jobs lost in June
- 31st July -- June public accounts
• 31st July -- FGV to announce July IGP-M ➔ +0.% versus + % in June
• 31st July -- IBGE, PNAD unemployment at % in 2nd Q/2016
• 31st July -- Congressional Recess ends [“officially”]
• 1st Aug. -- Congress begins 2nd semester sessions
• 1st Aug. -- Executive Branch to transmit detailed 2017 Budget (LOA) to Congress
• 1st Aug. -- July trade balance ➔ US$ billion
• 1st Aug. -- July Auto Sales units, +% MoM, but down - % YoY

1 - POLITICS

1.1 – Geddel Vieira Lima arrested

Answering reporters’ questions regarding the STF decisions to 1) fully restore the Senate mandate of Aécio Neves; and 2) release Rodrigo Rocha Loures to “semi-house arrest”, the PGR Rodrigo Janot responded, “as long as there is enough bamboo, we will have more arrows”.

On 3rd July, more “arrows” struck their mark. Federal Judge Vallisney Oliveira in Brasília issued a preventative arrest warrant for Geddel Vieira Lima that the Federal Police in Salvador, BA carried out. Quickly, Geddel was transferred to the Federal Police lockup in Brasília. In addition, this warrant included “search-and-seize” of documents at Geddel’s residence and the opening to all telephone, back, fiscal and postal secrecy plus the confiscation of all of Geddel’s cell phones.

Geddel’s political history shows that he had been a “financial operator” for the PMDB for at least 25 years and had been very close to (involved with) PMDB leader Michel Temer. When Temer became President in May 2016, he appointed his intimate PMDB “inner circle” to important cabinet positions ➔ Geddel Vieira Lima (BA) – Secretary of Government; Eliseu Padilha (RS) – Casa Civil Chief; Wellington Moreira Franco (RJ) – Secretary of the Presidency; Romero Jucá (RR) – Minister of Planning; and Henrique Eduardo Alves (RN) – Minister of Tourism.

Jucá and Alves were discarded because of corruption accusations and Alves was arrested. Geddel was sacked in November 2016 after he pressured the then Minister of Culture Marcelo Calero to approve a real estate transaction in Salvador.
Back in 1993 -- one year after Collor’s impeachment – **Budgetgate** irrupted ⇒ a corruption scandal involving the Joint Budget Committee and the deputies involved (were all relatively short) were nicknamed the “seven dwarfs” [sete anões] – and Dep. Geddel Vieira Lima was one of the seven.

More recently, Geddel was Vice-President of the CEF (2011-2013) appointed by Pres. Dilma Rousseff and **Operation Cui Bono?** It was discovered that Geddel and another CEF Vice-President Fábio Cleto received bribes to “liberate” FI-FGTS funds to private groups.

Geddel’s brother, Lúcia Vieira Lima, represents the family as federal deputy when Geddel ran for governor in 2010 and 2014.

Geddel’s arrest was because of “obstruction of justice” – manipulations (attempts) to persuade Lúcio Funaro, Eduardo Cunha and others not to do plea bargaining in the **Lava Jato** investigations. Geddel even called Funaro’s wife repeatedly to persuade her to secure Funaro from testifying. Also, Geddel was cited in the plea bargaining of Joesley Batista and Lúcio Funaro. The Federal Police suspect that Geddel was involved in operating bribe payments for Michel Temer. This is why the documentation seized by the Federal Police might be “devastating” for Temer – exactly when he is defending himself against the first denunciation at the STF currently being deliberated in the Chamber.

http://g1.globo.com/politica/noticia/paso-posicao-prisao-de-geddel-pas-stsacao-de-temer-akadoi-minimizam.shtml

Geddel Vieira had plans for 2018 – run for senator from Bahia in a PMDB-DEM coalition with ACM Neto: **Detail**: Geddel’s father, Afriso de Souza Vieira Lima, was a federal deputy from Bahia (UDN/ARENA/PDS/PMDB) and was a strong adversary of ACM-Antonio Carlos Magalhães in local politics. He died in January 2016 at age 87. ACM died in 2007.

1.2 – **Operation Ponto Final**

Connected to **Lava Jato**, this operation was launched on 2nd July as the Federal Police arrested Jacob Barata Filho who commands the largest part of bus transportation firms in Rio as he attempted to embark from Rio to Lisbon (with a one-way ticket). Several other bus company owners were also arrested via nine warrants issued by Federal Judge Marcelo Bretas. These warrants had been issued when the Federal Police perceived that Barata was set to flee to Portugal and thus arrested him at the airport gate. Perhaps Barata had reviewed “insider information” regarding his arrest. This group is
accused of paying large bribes (R$ 260 million) to former governor Sérgio Cabral for certain advantages for this sector.

On 4th July, Judge Bretas determined that more than R$ 18 billion in assets of the 44 persons investigated in this case

1.3 – PTN ➔ Podemos

On 1st July, the PTN officially became Podemos during a special event in Brasília that served to launch the pre-candidacy of Sen. Alvaro Dias (PR) for president in 2018. Podemos counts 14 federal deputies and two senators. Sen. Romário (RJ) is a pre-candidate for governor in 2018, and former Sen. Osmar Dias (brother of Alvaro Dias) is a pre-candidate for governor of Paraná.

1.4 – PT loses members

Between January 2016 and May 2017, the PT lost 7,458 members – the largest in this party’s history. Not only did the PT lose over half of the mayors elected in 2012, it also lost dues-paying members.

1.5 – Chamber deliberates Temer denunciation

On 4th July, the Chamber CCJ began its formal deliberations of the denunciation of Pres. Michel Temer submitted to the STF by the PGR Rodrigo Janot. Before the Supreme Court can begin its deliberations vis-à-vis this case, the Chamber must approve the STF’s initiative by a 2/3 vote (342 deputies). On 4th July, the CCJ President Dep. Rodrigo Pacheco (PMDB-MG) chose Dep. Sérgio Zveiter (PMDB-RJ) to be the reporter on this case for the CCJ. This choice was criticized by Opposition deputies because Zveiter is also from the PMDB – like Pacheco and Temer. However, the Planalto Palace (Temer’s office) was no pleased with this appointment because Zveiter is considered to be from the “independent” wing of the Chamber PMDB. He is considered a very competent lawyer and served twice as President of the OAB-RJ.

Zveiter is seen as a close ally of Chamber President Rodrigo Maia (DEM-RJ) who eventually might replace Temer if he “succumbs”.

Dep. Rodrigo Pacheco (PMDB-MG) affirmed that it is possible that the CCJ might exceed the five sessions stipulated in the Chamber bylaws so that the final vote by the full Chamber might occur only in early August – “just in time” for the second denunciation of Pres. Temer to arrive at the Chamber via the STF.

1.6 - BNDES

On Wednesday, 5th July, the TCU opened an investigation regarding a R$ 126 million loss suffered by Brazil’s development bank perpetrated by then BNDES President Luciano Coutinho, then Finance Minister Guido Mantega and Joesley Batista (Seara & Friboi) regarding the operation to acquire the American meat packing firm Swift Foods.
The plea bargaining agreement established with the PGR does not protect Joesley Batista from this TCU investigation.

1.7 – New PMDB floor leader in Senate

The Senate PMDB caucus selected its new floor leader to replace Sen. Renan Calheiros (AL) who resigned this past week. The new floor leader is Sen. Raimundo Lira (PB) who according to government floor leader Sen. Romero Jucá (PMDB-RR) was chosen by a unanimous vote. This was not exactly the “version” reported by some of Calheiros’ allies – especially Kátia Abreu (TO), Waldir Raupp (RO) and Jader Barbalho (PA) who were pressured by Calheiros to run for this important post – but they refused. Thus, this choice was considered to have been “WO” [without opposition”. Raimundo Lira is considered a “moderate” and balanced politician. His performance as the Chair of the Senate impeachment committee (Dilma Rousseff) was considered “well balanced”.

1.8 – Senate Ethics Council rejected expulsion of A. Neves

After the Senate Ethics Council Chair, Sen. João Alberto (PMDB-MA) unilaterally rejected the proposal to deliberate the possible cassação [expulsion] of Sen. Aécio Neves (PSDB-MG), a petition required a formal meeting of this Council to decide whether to deliberate this question or not. On 6th July, this Council decided not to deliberate this case by a 11-to-4 vote.

1.9 – PGR ➔ Dep. Fábio Faria

On 5th July, the PGR requested that the STF open an investigation of Dep. Fábio Faria (PSD-RN) and his father, Gov. Robinson Faria (PSD-RN) regarding the information obtained from the plea bargaining testimony by Ricardo Saud (J&F Group). Saud affirmed that his group had “contributed” R$ 10 million to the campaigns of the Farias (father and son) in the 2014 campaign in return for “certain advantages” for the J&F Group.

1.10 – Lava Jato

On 6th July, the Federal Police decided to integrate two working groups – 1) The Lava Jato operation; and 2) The Carne Fraca investigation into the Delecra ➔ Delegacia de Combate à Corrupção e Desvio de Verbas Públicas – Police Unit to Combat Corruption and Rip Offs of Public Funds. The federal prosecutors on the Lava Jato task force were quite discouraged by this development.

Eduardo Cunha – Reportedly, former deputy and Chamber President Eduardo Cunha (PMDB-RJ) currently in prison in Curitiba, has accelerated his plea bargaining testimony out of fear that Pres. Michel Temer is about to exit his post.

Lúcio Funaro – The former money changer and financial “operator” for the PMDB had been held in the Papuda prison in Brasília, but a few days ago was transferred to the Federal Police lockup in Brasília to facilitate his plea bargaining sessions with Federal Prosecutors.
Antonio Palocci – Reportedly in the process of negotiation of his plea bargaining testimony with federal prosecutors in Curitiba, Palocci has revealed his relationship with the Batista brothers and their JBS/J&F firm after they acquired the Pilgrim’s Pride meat packing operation in the US. This contract/relationship was not included in the testimony by the Batista brothers and this might force a revision of the latter by the PGR.

1.11 – Edson Fachin ➔ JBS & J&F ????

A little known “fact” [relationship] appeared on 7th July ➔ a “connection” of the family of STF Judge Edson Fachin and the JBS/J&F firm. Fachin’s daughter is married to Marcos Alberto Rocha Gonçalves. His father, Marcos Gonçalves, has worked for J&F for 16 years and currently is buyer of beef cattle for Mataboi Alimentos – a meatpacking plant in Paraná administered by José Batista Junior (the oldest of the Batista brothers). Also, he was one of the founders of Fachin Lawyers & Associates in Curitiba. Edson Fachin left his law office practice when he became a Supreme Court Judge in 2013. This law office is now run by Fachin’s son-in-law, Fachin’s wife and one of his daughters – Melina Fachin.

See ➔ https://travel.state.gov/content/passports/en/abroad/events-and-records/marriage/certificate-copy.html

In a note issued by his STF office, Fachin denied any links with JBS/J&F with no input to “promote” his candidacy to the Supreme Court. However – he forgot that his trips to Brasília to promote his candidacy at the Senate were in the JBS private jet. An attempt to requisition Fachin’s presence before the Chamber CCJ to explain his relationship with JBS/J&F failed because the CCJ Chair Dep. Rodrigo Pacheco (PMDB-MG) rejected this initiative.

Remember: It was STF Judge Edson Fachin who formally accepted the plea bargaining testimony by the Batista brothers and other JBS/J&F employees. Many thought that the “leniency” allocated to the latter were VERY favorable with no punishment (jail, house arrest or GPS ankle bracelet).

1.12 – Pres. Temer’s days may be numbered??

The “movement” of deputies, senators and their political parties shows that Michel Temer’s days as President may be numbered (near the end of the road). On 6th July, the interim PSDB national President, Sen. Tasso Jereissati (PSDB-CE) affirmed that “Brazil is becoming non-governable”. He also made several favorable references to the Chamber President Dep. Rodrigo Maia. Den. Cassio Cunha Lima (PSDB-PB) was more precise on 7th July, saying that “the Temer government should end in 15 days”. Maia remarked that IF he were to become President, he would maintain the economic team. Another “sign” – Maia has intensified his contacts with the financial sector.

It is possible that early next week the PSDB might abandon the Temer support coalition in Congress and several other mid-sized parties might follow suit. The result is that analysts perceive that the size of Temer’s group in the Chamber is “shrinking” quite rapidly. If a 2/3 vote in the Chamber supports the installation of a formal STF investigation of Temer (and the STF agrees to install the case), then Temer would have to step down (be suspended) for 180 days. During this period, Dep. Rodrigo Maia would assume the Presidency. Remember: The PGR has two other denunciations to submit to the STF, probably in August and then in September.
The possibility of a “negotiated resignation” by Temer is being discussed again (the Nixon scenario), whereby Temer would resign after obtaining the promise by his successor (Maia) that he would receive a full presidential pardon so that he could not be tried and convicted after leaving office.

This hypothesis has gained traction in the last few days by the “new facts” that have appeared and others that should appear in the next few days/weeks ➔ arrests of close Temer allies and new (devastating) pea bargaining testimonies. Thus, his G-20 trip might become his final “swan song” for the Presidency.

➔ Stay tuned!!!!

2 – FOREIGN RELATIONS & TRADE

2.1 – June Trade Surplus

On Monday afternoon, 3rd July, MDIC announced Brazil’s June trade surplus ➔ US$7.195 billion – the best June result since 1989. Exports totaled US$19.8 billion (+23.9% YoY) and imports were US$12.6 billion (+3.3% YoY). The first semester accumulation is now US$36.219 billion versus 23.651 billion in 1st semester 2016. Exports were US$10.7 billion (+19.3% YoY) and imports were US$71.5 billion (+7.3% YoY). MDIC now estimates that the 2017 trade surplus might approach US$60 billion versus (US$47.5 billion in 2016. The record grain harvests in 2017 helped increase exports.

2.2 – Pres. Temer ➔ G-20

Pres. Temer embarked for Germany late Thursday morning, 6th July, to attend the G-20 meeting in Hamburg. Finance Minister Henrique Meirelles arrived in Hamburg before the G-20 meeting and told reporters that Brazil’s GDP would be positive in 2017 ➔ +0.5%. The only other cabinet minister to accompany Temer at the G-20 is Foreign Minister Aloysio Ferreira Nunes (PSDB-SP). Temer should return to Brasília early Sunday morning, 9th July. Because Chamber President Rodrigo Maia (DEM-RJ) is also traveling, Senate President Eunício de Oliveira (PMDB-Ce) became interim President of the Republic.

Temer arrived in Germany Friday morning, 7th July and went straight to a BRICS meeting.

2.3 – Brazil ➔ OECD???

Reportedly, the OECD group of 35 members is to meet on 12th July (after the G-20 encounter) when Brazil’s membership should receive a “green light”. However, there are indications that the Trump government might oppose Brazil’s entry because of its current political crisis. Five other nations have also applied for membership in the OECD ➔ Argentina, Peru, Croatia, Romania and Bulgaria. During Lula’s presidency, Brazil received several “invitations” to become a member of the OECD but always refused. Apparently, the US is not in favor of a “rapid expansion” of the OECD. Brazil’s Finance Minister Henrique Meirelles has arrived early in Hamburg to hold meetings with his Japanese and Canadian counterparts who apparently are also reluctant to approve this expansion.
Germany, Sweden, Italy and Portugal are the main supports of Brazil’s membership. For this reason, Pres. Temer will meet with Pres. Trump in an effort to reduce the reluctance of the US.

3 – REFORMS

3.1 – Labor Legislation Reform

The approval of this reform lacks only a final vote (simple majority of those present) of the full Senate next week, perhaps on 11th or 12 July. The approval of this measure was considered “secure”, but this week more senators had doubts and so the vote might be very close. Even if this reform is approved, the Senate would still have to vote on the destaques – proposed amendments – where some modifications might be approved regarding the version already approved by the Chamber. In this case, the reform would have to return to the Lower House for final approval in August or September.

4 – PRIVATIZATION & REGULATION

4.1 – Hydro installations

The federal government projects that the auction of new concession auction of old hydro electric installations might yield some R$ 30 billion. The tendering documents should be ready in 1st Q/2018 and the concessions auctions held later in 2018. These funds should help reduce the projected 2018 fiscal deficit of R$ 129 billion.

5 - ECONOMICS

5.1 - IPCA

IBGE released the June IPCA data on Friday, 7th July deflation -0.23%. This was the largest deflation in 19 years, since August 1998 (-0.51%). The last June deflation was in 2006 -0.21%. In May 2017, the IPCA was +0.31 and in June 2016 was +0.35%. In the first semester of 2017, the IPCA posted +1.18% versus +4.42% in 2016. The 12-month accumulation is now +3.60%. At the next Copom meeting, 26-27 July, probably the Selic reduction will continue one full p.p. – or perhaps even more.

5.2 – Industrial Production in May

IBGE released its IP data for May on 4th July +0.8% MoM, the best May result since 2011. In April, IP increased by +1.1% MoM. IP increased in 17 of the 24 sectors surveyed by IBGE. However, compared to 2016, May was +4.0% YoY, but April 2017 was -4.3% YoY. Production in the auto sector was +9.0% due to increasing exports. In the first semester 372,500 vehicles were exported (+57.2% YoY).

5.2.1 – Auto production
New car sales in June were down by -0.3% MoM according to Fenabrave data released on 4th July. However, Fenabrave expects a +4.3% YoY in 2017, or 2.07 million units. In June, 194,970 units were sold (+13.5% YoY). In the first semester 2017, 1.26 million vehicles (cars trucks & buses) were sold (+23.3% YoY).

5.3 – Comperj

The construction of the petrochemical complex in Rio de Janeiro – Comperj – was suspended in October 2015 because of the *Lava Jato* investigations. At that time, some 5,000 employees were working at this construction site. This project had already consumer US$ 13 billion. Now, Petrobras is searching for partners to continue this project. Apparently, negotiations are underway with two Chinese groups – CNPC and CNCC – as potential partners in this project.