Brazil Focus – 
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Weekly Report
July 15-21 2017

Looking Ahead ➔ What to watch for?

- 24th July -- SRF ➔ June tax collections in June R$ billion, versus R$ billion in May
- 31st July -- June public accounts
- 31st July -- FGV to announce July IGP-M ➔ +0.1% 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
- 2nd Aug. -- Full Chamber of Deputies to vote denunciation of Pres. Temer
- 6th Aug. -- New election for governor & Vice-Governor, state of Amazonas
- 7th Aug. -- FGV to release IGP-DI for July ➔ +0.1% versus +% in June
- 9th Aug. -- IBGE to release June retail sales data ➔ +% MoM
• 9th Aug. -- IBGE ➔ June, Services Sector data -0.0% MoM & -% YoY
• 10th Aug. -- IBGE to announce July IPCA ➔ +0.0% versus +0.0% in July 2016
• 10th Aug. -- IBGE - Industrial Production in June ➔ +% MoM
• 14th Aug. -- Central Bank, to release June IBC-Br ➔ +0.0% MoM & -0.0% in 2nd Q/2017
• 17th Aug. -- IBGE ➔ PNAD unemployment at %

1 - POLITICS

1.1 – Marco Aurélio Garcia dead at age 76

Born in Porto Alegre on 22nd June 1941, Garcia died of a heart attack in São Paulo on 20th July 2017. In February 2013, Garcia underwent heart surgery (four bypasses) in Brasília. Active in Leftist student politics during high school at the Colégio Júlio de Castilhos, he was elected to the Porto Alegre city council in 1962 by the PCB while he studied Law and Philosophy at the UFRGS and was Vice-President of UNE-the National Student Union. Garcia is survived by his son, Leon, and one grandson, Benjamin.

In 1970, he was exiled in Chile where he taught at Flacso in Santiago. After the military coup in September 1973, he left Chile for exile in Paris where he did graduate studies and taught at the University of Paris VIII and Paris X. With the general amnesty he returned to Brazil in 1979 and helped found the PT in 1980, and became Professor of History at Unicamp. He became the PT national secretary for international relations and founded the Foro de São Paulo in 1990 that each year gathered representatives of leftist and Communist governments for a conclave.

Photo: Roberto Stuckert Filho/Ag. Globo

Professor Marco Aurélio Garcia

He was municipal Secretary of Culture in Campinas (1989-1990) and São Paulo (2001-2002), and Vice-President of the PT (2005-2010). In January 2003, the PT demanded that Pres. Lula appoint Garcia to be the Special Presidential Advisor for International Relations – a position that had been traditionally occupied by a senior [professional] diplomat. Hi impact on Itamaraty and Brazil’s foreign relations was kept in check by Foreign Minister Celso Amorim (2003-2010). His ideological
“counterpart” at Itamaraty was Executive-Secretary (number two) Samuel Pinheiro Guimarães. However, he did exert considerable influence and policy input regarding Brazil’s relations in Latin America – especially Cuba, Venezuela and Bolivia. García continued in his post under Pres. Dilma Rousseff (2011-2016) and had more power and influence vis-à-vis a series of “weak” foreign ministers.

García’s foreign policy ideological strategy turned away from the US and Europe and strengthen relations with Leftist governments in Latin America elected after 1990. He also was a strong advocate of increased commercial relations with the BRICS.


http://politica.estadao.com.br/noticias/geral,morre-marco-aurelio-garcia,70001898088

1.2 – Lava Jato

1.2.1 - JBS-Batista Brothers

In support of their plea bargaining testimony, on 19th July the lawyers for the Batista brothers delivered to the PGR 20 volumes of documents detailing and documenting their affirmations. This includes illegal donations to some 1,829 politicians and the bribes paid to Ministry of Agriculture meat packing plant inspectors. In addition to the Batista brothers, two J&F employees – Ricardo Saud and Francisco de Assis – also presented additional documentation cases involving Eduardo Cunha, doleiro Lucio Bolonha Funaro, and the offshore Blessed in Switzerland managed by Guido Mantega.

Want more? Joesley Batista has decided to sue Pres. Temer regarding his slanderous statements regarding the JBS owner.

1.2.2 – Lula, bank accounts frozen

On 19th July, following orders from Judge Sérgio Moro, the Central Bank blocked (froze) R$ 606,000.00 in Lula’s bank accounts. Judge Moro accepted the request by federal prosecutors to freeze Lula’s assets so that the “proceeds of Lula’s alleged bribe crimes could be recovered after his conviction is confirmed by the TRF-4”. Allegedly, this case produced a R$ 16 million loss for Petrobras. In addition to these bank accounts, Moro also blocked Lula’s two automobiles, three apartments and a building lot in São Bernardo do Campo. On 20th July, another R$ 9 million was discovered and confiscated – Lula’s investments in a private pension fund.

1.2.3 – Marcos Valério
Marcos Valério is serving a long (37-year) prison term in Belo Horizonte, sentenced by the STF for his “participation” in the Mensalão scandal – but refused to do plea bargaining in order to reduce his sentence. However, on 17th July, he began plea bargaining testimony regarding his participation in the Mensalão Tucano in 1998 – a money laundering scheme to finance the reelection attempt by then Governor Eduardo Azeredo (PSDB-MG).

1.2.4 – Jorge Luz

Bribery/money laundering operator between Petrobras directors Paulo Roberto Costa and Nestor Céveró and the PMDB, Jorge Luz, began his plea bargaining testimony on 17th July. Reportedly, he identified transfers to a number of PMDB politicians, including Renan Calheiros (PMDB-AL), Jader Barbalho (PMDB-PA) and Aníbal Gomes (PMDB-CE) – in Swiss bank accounts.

1.3 – New Presidential jet

Pres. Lula retired the aging presidential jet – the Sucatão – a refurbished Boeing 707 refueling tanker KC-137 acquired in 1986 by the Sarney government – with a new Airbus plane ACJ-319 in 2005 (nicknamed AeroLula – but the range of this plane (8,500) required one refueling stop to the US or Europe and two stops en rout to Asia. For this reason, FAB leased a longer range plane, a Boeing 767 300ER for three years as of July 2017 – via a tendering that was won by a SP leasing firm – Colt. The 767 300ER (manufactured in 1992) has a range of 11,000 KM. Pres. Temer used the 767 on his trip to the G-20 in Hamburg, Germany. However, the AeroLula will still be used in shorter trips.

1.4 – More party “switching”

The successive prohibitions of party switching are mostly a “dead letter” in Brazil 2017. Frequently, Congress has approved “windows” for such switches since the TSE/STF prohibited party switching in 2007. Now, in mid-2017, yet another “window of opportunity” has been opening vis-à-vis the new R$ 3.6 billion federal election fund being approved by Congress. This law will allocate this fund to the parties proportionate to the size of each party delegation in the Chamber as of 10th August.

Thus, “the race is on”. The PSB left the Temer support coalition, but some 50% of its 32 deputies are “discontent” and might switch parties. To this end, Chamber President Rodrigo Maia (DEM-RJ) is actively recruiting these PSB dissidents for his party PLUS discontents from other parties. However, Pres. Temer reacted strongly to Maia’s efforts. Each deputy recruited to switch would mean another R$ 2.4 million from this new fund. Each new Senator would be worth an additional R$ 6.7 million.

1.5 – Getúlio Vargas Neto – third family suicide

On 17th July, Getúlio Dornelles Vargas Neto (1956-2017) was found dead (shot himself in the head) in his apartment in Porto Alegre, RS. Getulinho’s grandfather, then President Getúlio Vargas committed suicide in August 1954 after the Armed Forces signaled that he should “take a leave of absence” for the presidency. The president’s son, Manuel Sarmanho Vargas (Maneco) shot himself in the chest (like his father) in 1997. Getulinho ran for RS state deputy in the 1980s, but later moved to
Rio and joined the PPS. In 2006, he joined the PDT and was active in the campaign to elect Vieira da Cunha federal deputy in 2006. He held a BA in Administration and managed the family ranch in Rio Grande do Sul.

1.6 – BNDES lost third director

On 19th July, BNDES controller Ricardo Baldin resigned because of “differences” with the development bank’s new President, Paulo Rabello de Castro. This was the third BNDES director to resign after Rabello took office in early June. Of the seven directors appointed by Maria Silvia Bastos Marques in 2016, four remain → Marliene Ramos, Cláudia Prates, Eliane Lustosa and Recardo Ramos.

1.7 – New Minister of Culture

Earlier this week, politicians commented the articulations by the PTB to have one of its deputies occupy the Minister of Culture – vacant since 18th May when the PPS broke with the Temer government and Dep. Roberto Freire resigned this post. Reportedly, the prime PTB name was the daughter of the PTB national president, Roberto Jefferson – Dep. Cristiane Brasil (PTB-RJ). However, Pres. Temer decided to offer some “prestige” to Brazil’s artistic sector and appointed the head of journalist Sérgio Sá Leitão – Director of Ancine-National Agency for Cinema.

2 – FOREIGN RELATIONS & TRADE

2.1 – Brazilian elected President of CODEX

Veterinarian Guilherme Antonio da Costa Jr. received 56% of the votes cast to be elected President of CAC-CODEX Food Commission (part of FAO). Costa Jr. is a sanitary inspector for meat and food production at the Ministry of Agriculture → déjà vu Operation Carne Fraca. Another Brazilian, José Graziano is President of FAO.

2.2 – Mercosul met in Mendonza

On 20-21 July, the 50th Mercosul Summit met in Mendonza, Argentina. The agenda included the possible expulsion of Venezuela from Mercosul and the finalization of negotiations of a block-to-block free trade agreement between the EU and Mercosul. Brazil assumed the rotational presidency of Mercosul until the December 2017 summit meeting.

Mercosul-Egypt TA – On 19th July, Argentina notified Mercosul that its congress had ratified the 2010 Trade agreement with Egypt. Thus, this TA will go into effect in 30 days.

Colombia signed a TA with Mercosul that “liberates” 97% of bilateral trade.
3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Tax increases

Faced with a rapidly expanding fiscal deficit that threatens the 2017 fiscal target of a R$ 139 billion deficit, on 19th July the Temer government decided to increase (double) the PIS Confins levies on gasoline and diesel fuels. The pump price of gasoline might increase by R$ 0.41. Expenditures have been reduced but not enough. Federal tax collections increased by only +0.77% in the first semester of 2017. The result might be an additional R$ 11 billion. It is estimated that this tax increase should have an impact of 0.6% on the official inflation index ➞ IPCA

5.2 – SRF ➞ Brazilians in Miami

Brazil’s federal tax service (SRF) has intensified its investigation of real estate luxury homes and apartments in Miami owned by Brazilians – but never declared on their respective tax returns in Brazil. The SRF has identified 2,100 such assets owned by Brazilians in Miami – considered as tax evasion and money laundering.

5.3 – ANP ➞ Reduce local content rule

In an effort to reduce the costs of Brazil’s off shore petroleum exploration and attract new investments, the ANP has suggested a reduction [flexibilization] of the “local content” rule for equipment used under existing contracts.

5.4 – July Inflation

On 20th July, IBGE released its IPCA-15 “inflation preview” ➞ deflation of -0.18%. The 12-month accumulation is now at +2.78% -- below the lower limit “target” of +3.0%. This result was below the average estimate by economists surveyed by Reuters ➞ -0.09% and a +2.87% accumulation. This result was the lowest June result in 20 years.

5.5 – Federal Tax Collections
In June, federal tax collections totaled R$ 104.1 billion (+3.0% YoY) and R$ 648.5 billion in the first semester of 2017 (+0.77% YoY). This was the best first semester result since 2015.

5.6 – Caged ➔ 9,800 new jobs created

On 17th July, the Ministry of Labor released its Caged data that showed that 9,800 new jobs (net) had been created in June. Thus, the first semester had a positive result of 67,300 new jobs created – a slight expansion of +0.18% versus the previous semester. The average salary in this 1st semester was R$ 1,463.67 ➔ 3.5% compared with the previous semester.

5.7 – June Public Accounts

On July 21st, the Central Bank announced that Brazil had a current account surplus in June ➔ $1.330 billion. This was the best June result since 2004. The first semester 2017 result was also positive ➔ $715 million.

FDI in June posted $3.991 billion.

Overseas spending by Brazilian tourists in 1st semester 2017 ➔ $8.805 billion +34.8% as compared to the first semester 2016 ($6.532 billion. In June 2017, Brazilian tourists spend $1.51 billion) +10.1% YoY. The main reason was the cheaper FX rate.