Brazil Focus –
David Fleischer
Phone/FAX: 55-61-3327-8085
Cell: 99218-2771 e-mail: Fleischer@uol.com.br
Weekly Report
Aug. 12-18 2017

Looking Ahead ➔ What to watch for?

- 21st Aug. -- CNI Industrial Employment in July ➔
- 21st Aug. -- Federal Revenues in July ➔ R$ billion (- % YoY)
- 22nd Aug. -- 41st anniversary to tragic auto crash on Dutra highway that killed JK
- 24th Aug. -- IBGE to release IPCA-15 inflation data ➔ +0.% versus +0.% in July
- 24th Aug. -- FGV-RJ – consumer confidence index
- 25th Aug. -- Caged data for July ➔ jobs lost
- 27th Aug. – Second round election, Governor of Amazonas
- 28th Aug. -- Operation Lava Jato to mark its third anniversary
- 29th Aug. -- July public accounts
- 29th Aug. -- FGV to announce August IGP-M inflation data ➔
- 30th Aug. -- IBGE, PNAD unemployment data, May June-July ➔ %
- 31st Aug. -- Min. Planning to announce minimum wage as of 1st January 2018 ➔ R$
- 31st Aug. -- IBGE to announce 2nd Q/GDP ➔ -0.% and -% YoY
• 1st Sept. -- Trade Surplus for August ➔ US$ billion
• 4th Sept. -- August new car sales units ➔ -% MoM & -% YoY
• 4th Sept. -- IBGE to announce July industrial production ➔ +0.% MoM & -% YoY
• 4th Sept. -- Labor Day (National Holiday in US)
• 5-6 Sept. -- Copom Meeting, Selic rate ➔
• 6-7 Sept. -- XXI CAF Conference, Mayflower Hotel, Washington, DC
• 7th Sept. -- Independence Day [National Holiday, Brazil]

1 - POLITICS

1.1 – Temer appointed two new BC directors

On 11th August, Pres. Temer sent two names to the Senate for confirmation as Directors of the Central Bank ➔ Paulo Sérgio Neves de Souza and Maurício Costa de Moura. Both are permanent employees of the Central Bank. Paulo Sérgio is the chief of DESUP-Dept. of Bank Supervision based in SP. Maurício is the current Chief of Staff of the BC President Ilan Goldfajn. However, there was no indication regarding which slots [Directorates] they would occupy at the BC.

1.2 – Carlos Araújo dead at 79

Former anti-military government guerrilla, Carlos Franklin Paixão de Araújo, died in Porto Alegre early Saturday morning, 12th August of chronic lung disease. He was born in São Francisco de Paula, RS in February 1938. Araújo met Dilma Rousseff in 1969 in the VAR-Palmares and both were arrested by the military regime. His codename was “Max” and hers was “Estela”. After they were released from prison (Dilma 1972 and Araújo 1974), they were married for 25 years (until 1994) and had a daughter, Ana Paula, in 1976. Araújo’s father, Afranio Araújo, was a famous labor lawyer in Porto Alegre who died soon after he was released from prison, and Carlos assumed his father’s law practice. He also had two sons, Leandro and Rodrigo.

In the 1950s, Carlos followed in the footsteps of his father and joined the Communist Youth organization. In 1957, he participated in the Communist Youth Festival in Moscow.

Photo: RBS-TV

Dilma Rousseff & Carlos Araújo
With the general amnesty approved in August 1979, Carlos and Dilma joined the PDT-RS at that time led by former RS Governor Leonel Brizola. Araújo was elected PDT state deputy in 1982 1986 and 1900 and was candidate for Mayor of Porto Alegre in 1988 -- defeated by Olivio Dutra (PT). Once again in 1992, Araújo was defeated for Mayor by the PT candidate Tarso Genro. In 2000 abandoned politics to concentrate on his law practice.

1.3 – “To the Victor go the Spoils”

1.3.1 – Ministry of Health

As previously reported, the so-called “Centrão” – the “Big-Center” solution of parties that helped defeat the PGR’s accusation against Pres. Temer on 2nd August was very upset because its parties did not receive and “political compensation” for their “performance” and were threatening to vote against other Temer measures – in particular the next accusation that the PGR should deliver to the STF shortly.

Salamis Appointed. On 15th August, the first such “Spoils” was delivered ⇒ João Salame Neto was appointed to a second echelon position at the Ministry of Health – Director of the Dept. of Basic Attention. He was “indicated” by 5 deputies from the PP.

Want more? Salame is considered a Ficha Suja. He was cited in the plea bargaining by Odebrecht officials as having requested R$ 1.5 million for the campaign of Dep. Helder Barbalho (PMDB-PA) in 2014. Also, he was Mayor of Marabá, PA and was removed due to corruption accusations. He has a “good track record”.

1.3.2 - Codevasf

On 14th August, Pres. Temer rewarded the “loyal” wing of the PSB (that voted in his favor on 2nd August) with the appointment of the new president of Codevasf-Company for the Development of the São Francisco and Paraíba Valleys – Antonio Avelino Rocha da Neiva – indicated by Dep. Heráclito Fortes (PSB-PI). Neiva had been Government Secretary to Gov. Wilson Martins (2011-2014). This key political position was hotly sought after by several parties in the Northeast region, including the PP – especially this party’s national President Sen. Ciro Nogueira (PP-PI). It is possible that that this pro-Temer wing of the PSB might switch to the DEM.

1.4 – Government revised 2017 fiscal target

The Temer government was scheduled to announce its revised (upward) fiscal deficit target for 2017 on Friday, 11th August – but this was postponed until Monday and then Tuesday and finally made public on Wednesday morning, 16th August.

However, Finance Minister Henrique Meirelles and Planning Minister Dyogo Oliveira convoked a press conference for 7:30 p.m. Tuesday, 15th August to explain the government’s decision to increase the 2017 fiscal deficit target from R$ 139 billion to R$ 159 billion and from R$ 129 billion to R$ 159 billion in 2018. Apparently, the “conflict” that postponed this decision was “politicians vs.
the economic team”. Government deputies wanted the deficit expanded to R$ 170 billion to accommodate their increased expenditures – in preparation for the 2018 elections.

Meirelles explained that the main problems were: 1) underperforming federal revenue collections; and 2) reduced inflation.

He also outlined several items that would/should “enhance” federal revenues and ease the fiscal dilemma ➔ 1) new taxation on exclusive investment funds (R$ 6 billion); 2) end of tax exemptions on certain private sector payrolls (R$ 4 billion); 3) increase in social security contributions by federal workers from 11% to 14% (R$ 1.8 billion); 4) postpone salary increases for executive branch employees (R$ 5.1 billion; 5) reduction of initial salary for new federal employees to R$ 5,000,00 per month (R$ 18.6 billion, over 5 years); 6) reduce the 2018 minimum wage from R$ 979,00 to R$ 969,00 (reduce social security deficit); and 7) elimination of 60,000 federal jobs (reduction of expenditures).

Also, Meirelles affirmed that the government would try to reverse the “mutilation” of the new Refis proposed MP by Dep. Newton Cardoso Junior (PMDB-MG – the committee reported on this MP. This MP would “facilitate” (stimulate) private sector firms to pay up their back (delinquent) taxes. The original MP projected some R$ 13.5 billion in enhanced federal revenues BUT Dep. Cardoso Jr. (whose firms owe large amounts of back taxes) reduced the projections to some R$ 500 million.

Meirelles also outlines perspectives for increased revenues from concessions and privatizations ➔ Airports -- including Santos Dumont and Congonhas (some R$ 6 billion)), hydo electric installations, new ANP concessions auctions, etc. Another proposal would limit ALL federal salaries to the constitutional limit (STF judges, R$ 33,000,00) – including all “extras”.

The press has speculated that this announcement (and the “politics” behind this process might produce “downgrades” by the main political risk agencies – S&P, Moody’s and Fitch. Currently, Brazil is two ranks below “investment grade”.

On Tuesday, before the formal announcement was forthcoming, Fitch Ratings’ managing director for Brazil, Rafael Guedes stated that “The change in the fiscal target is not good news, but once again demonstrates why the Brazilian rating carries a negative outlook”. However, he added that by itself would not lead Fitch to downgrade this country’s sovereign risk rating.

On Wednesday, Lisa Schineller, S&P Risk Analyst, affirmed that because of the plan announced by Meirelles S&P altered its “perspective” for Brazil from “Negative” to “Neutral”. However, S&P maintained Brazil rating at two ranks below “Investment Grade”. Schineller cited the replacement of the TJLP for the new TLP for BNDES loans and the reduction of federal expenditures as the main reasons for this S&P decision. She also cited the strong possibility of the Temer government to approve the social security reform.

Photo: Folhapress
This readjustment of the 2017 and 2018 fiscal targets must be approved by Congress and there are indications that the “discontent” support Temer support coalition might object” (i.e., more “side payments” required).

1.5 – Lava Jato

1.5.1 – Operation Queen of Spades

On 15th August, the Federal Police launched Operation Queen of Spades in Natal, RN with 11 warrants search-and-seize (9) and temporary arrest (2) – against a “scheme” installed by Gov. Robson Faria (PSD) when he was president of the ALRN-state legislature (2006-2010) – and continued after he became governor in 2010 and reelected in 2014 (when he defeated former Chamber President Dep. Henrique Alves (PMDB). Alves has close links with Pres. Temer and was dismissed from his cabinet position and later arrested accused of illicit campaign finance.

Robson Faria had a scheme of “no-show” [ghost] employees at the at the AL-RN.

Want more? The governor’s son, Dep. Fábio Faria (PSD-RN), was considered quite a “ladies man” until he married Patricia Abravanel (daughter of SBT TV network – Silvio Santos. Last week, a GloboNews report revealed that the plea bargaining testimony of J& P executive Ricardo Saud affirmed that JBS had allocated R$ 10 million to the Robinsons’ 2014 campaign during a dinner party at the home of Joesly Batista in SP. On 14th August, Dep. Fábio Faria used a WhatsApp message from Ticiana Batista (Joesly’s wife) to Patricia Abravanel affirming that “no such negotiations occurred during said “diner party” and no illicit campaign contributions were discussed. Ricardo Saud explained that “after said dinner, the men met in one party of the house, and that the women remained in another part of the house; those none of the women present were party to the men’s conversations”.

1.5.2 – Operation Hammer-on

On 15th August, the federal police and federal auditors launched Operation Hammer-on in Paraná, São Paulo, Minas Gerais, Espírito Santo and Santa Catarina with 153 warrants against a large
scheme of money laundering of some R$ 5.7 billion between 2012 and 2016. Some of the firms already under investigation by the Lava Jato task force were involved.

1.5.3 – Geddel Vieira Lima [again]

On 16th August, federal prosecutors in Brasília accused Geddel Vieira Lima (PMDB-BA) of obstruction of justice. He was accused of trying to silence PMDB doleiro [operative] Lucio Funaro via heavy pressures on his wife – Raquel Funaro. A second accusation involved pressures on then Minister of Culture Marcelo Calero (in November 2016) to “release” a real estate project in Salvador, BA from restrictions by IPHAN. As a result, Calero resigned and Pres. Temer dismissed Geddel from his key position as Minister of Government.

Federal Judge Vallisney Oliveira in Brasília ordered Geddel’s arrest in July 2017 and was imprisoned at the Papuda prison in Brasília, but the TRF-1 Judge Ney Bello granted a release to house arrest (but without an ankle bracelet) on 12th July.

1.5.4 – Antonio Palocci

Former Lula and Dilma cabinet minster Antonio Palocci was arrested by the Operation Lava Jato in September and convicted of money laundering for the PT and sentenced to 12 years in jail. On 16th August, the TRF-4 denied a habeas corpus for his release arguing that the funds have yet to be recovered and that his release might assist in destruction of evidence.

1.5.5 – Operations Sem Fronteiras & Abate

Early Friday morning, 18th August, the Federal Police carried out TWO simultaneous Operations ➤ Sem Fronteiras & Abate (Phases 43rd & 44th) with 46 warrants (29 search & seize, 11 coercive testimony and 6 temporary arrests) -- including former deputy Cândido Vaccarezza (PTdoB-SP ➤ now Avante) – ex-PT, accused of corruption, money laundering and criminal association. He had been the PT floor leader in the Chamber between 2010 and 2012. This was the first time that the Federal Police carried out two phases simultaneously.
The *Lava Jato* task force accused him of “articulating” contracts of US$ 180 million between Petrobras and the American Sargeant Marine to supply asphalt (*Operation Abate*). Federal prosecutors affirm that Vaccarezza and the PT received a total of US$ 500,000.00 skimmed off from these contracts. The police confiscated a large quantity of money in cash (R$ 122,000,00) as well as several very expensive imported watches at Vaccarezza’s home in SP. Judge Sérgio Moro ordered R$ 6 million in Vaccarezza’s assets confiscated.

*Operation Sem Fronteiras* involved contracts with Greek oil tankers at the service of Petrobras articulated by the Greek consul general and his son in Rio as well as then Petrobras director Paulo Roberto Costa. Judge Sérgio Moro prohibited the Greek consul to leave the country.

Paradoxically, part of the evidence gathered for these two operations was discovered when the Federal Police did a search-and-seize warrant at the home of Alm. Othon Luiz Pinheiro da Silva (former President of Nuclebras) on a pen drive that was confiscated. For some reason, this pen drive was left at Alm. Othon home by *doleiro* Bruno Luz, son of *doleiro* operator Jorge Luz who helped “intermediate” these corrupt operations.

**1.5.6 – Gilmar Mendes freed bus company executives in Rio**

On 17th August, STF Judge Gilmar Mendes issued an *habeas corpus* that freed the executives of bus transportation firms in Rio arrested during *Operation Ponto Final* (on 3rd July) -- Jacob Barata Filho and Lélis Marcos Teixeira. Barata Filho was arrested by the Federal Police as he tried to embark to Lisbon, Portugal with a one-way ticket. They were accused to paying some R$ 500 million in bribes to Rio officials (including then governor Sérgio Cabral) in return for “favorable policy decisions”.

Mendes argued that these “grave” crimes were committed between 2010 and 2016, and that “old facts do not justify these arrests”.

However, federal judge Marcelo Bretas in Rio retaliated quickly and ordered them arrested on two other accusations (counts) – tit-for-tat.

**1.5.7 – Gabrielli & Foster**

On 17th August, federal prosecutors in Mato Grosso do Sul presented an accusation of “administrative impropriety” against former Petrobras President José Sérgio Gabrielli de Azevedo and five former “notorious” Petrobras directors (including his successor Maria das Graças Silva Foster, Almir Barbassa, Guilherme Estrela, Jorge Zelada and Renato Duque) and Galvão Engenharia S.A. plus Sinopec for “irregularities” in the construction of a nitrogen fertilizer factory in Três Lagoas, MS. The prosecutors requested that the federal judge confiscate all the assets of those (six) accused.
2 – FOREIGN RELATIONS & TRADE

2.1 – Former Bolivian Senator dead in air crash

On 12th August, Former Bolivian senator Roger Pinto Molina (58) was seriously injured when the light plane he was piloting crashed on take off at a small regional airport in Luziania, GO. He was transported to the central hospital (HDB) in Brasília. He suffered a brain concussion plus traumas to his face and abdomen.

In 2013, he sought asylum at the Brazilian Embassy in La Paz alleging that he was threatened with arrest and torture by the Bolivian government. He remained in the Embassy for 500 days under “restricted” conditions – on order of Marco Aurélio Garcia (Pres. Dilma’s foreign affairs advisor. He was confined to a small room with no window and not allowed outside to get sunlight and fresh air.

In a spectacular adventure, the DCM at the Embassy Eduardo Sabóia drove overland 22 hours non stop to Brazil in two embassy vehicles and drivers loaded with food, water, extra fuel and diapers. They arrived safely at the Mato Grosso do Sul border and Senator Ricardo Ferraço (PSDB-ES) secured a private executive jet to fly them to Brasília. Molina finally received asylum but Sabóia was “persecuted” at Itamaraty and then requisitioned to work in the Senate committee where Ferraço was Chair. As a result, the then Foreign Minister Patriota was “kicked upstairs” to become Brazil’s Ambassador to the UN. After, Pres. Dilma was impeached in May 2016, and the PSDB took over the Foreign Office, Sabóia was “rehabilitated” and promoted to Ambassador. Currently, he is the Chief of Staff for Foreign Minister Aloysio Nunes Ferreira. The police investigating this case suspect that the light plane used by Molina was sabotaged.
However, at 4:00 a.m., Wednesday, 16th August, Senator Molina died of heart failure in the Brasília central Hospital. Molina’s lawyer, Fernando Tibúrcio, alleged that the Senator’s plane had been sabotaged by Bolivian and/or Cuban “secret agents” and requested that Brazilian authorities examine the plane to analyze this hypothesis.

2.2 – Vice-President Pence ➔ Latin America

US Vice-President Mike Pence began his visit to Latin America in Colombia, then Argentina and Chile. In Colombia, Pence tried to undue the “flack” created by Pres. Trump when he stated that the “US might seek a military solution to restore democracy in Venezuela”. This was used by Venezuela President Nicolas Maduro as proof of US intervention and accused the Venezuelan opposition as “Trump accomplices”.

In Argentina, Pence praised this nation’s return to democracy and stability. In Santiago, Chile, Pence urged Brazil, Chile, Mexico and Peru to break off diplomatic and trade relations with North Korea in line with recent UN restrictions. In 2016, Brazil exported US$ 2.1 million (coffee, beef, tobacco and leather. In return, Brazil imported US$ 8.7 million.

Want more? Pence flew from Santiago, Chile to Panama City on Thursday, 17th and was scheduled to tour the new Panama Canal facilities and return to Washington on Friday. However, he cut his Panama visit short and returned to Washington on Thursday, in time to participate in a special foreign affairs strategy meeting at Camp David with the National Security team on Friday.

Also, he canceled two political appearances on Saturday in Virginia – 1) a campaign rally by Republican candidate for governor – Ed Gillespie; and 2) a speech at the Americans for Prosperity summit.

3 – REFORMS

3.1 – Political Reform

On Tuesday, 15th August, the Special Political Reform Committee in the Chamber approved the Distritão PEC as well as the measure to create the R$ 3.6 billion “Fund for the Promotion of Democracy” to fund the 2018 elections. Now both proposals go to the full Chamber for deliberation. To go into effect for the October 2018 elections, these changes must be approved by both Chamber and Senate and published in the daily record before 7th October 2017.

The reporter, Dep. Vicente Candido (PT-SP) removed several items during the final vote in the Special Committee on 16th August – 1) Anonymous donations of up to R$ 10.00,00 by individuals per candidate (remains “public” information) and up to R$ 1.000,00); and 2) Approval of the Pro-Democracy Fund for Campaign finance in 2018 was postponed until December.

Chamber President Rodrigo Maia (DEM-RJ) put this reform PEC [Distritão] on the agenda for a first round vote on Wednesday, 16th August, but no vote was taken because Maia thought the
quorum was “too low” – 430 deputies present. Approval of a PEC requires two rounds of voting with 308 votes (60%).

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Retail Sales increased

On 14th August, IBGE released data for retail sales in the month of June ➔ +1.20% Mom and +3.0% YoY. However, the six-month accumulation as of June was negative ➔ -0.1% and -3.0% for the 12-month period. This “June Blip” is attributed to cheaper and more available consumer credit.

5.2 – June IBC-Br

The Central Bank released its IBC-Br for June on 17th August ➔ +0.5% MoM, but -0.56% YoY. Analysts surveyed by Reuters had predicted +0.2%. The accumulation for 1st semester 2017 is -0.11% and -2.03% for the 12 month period. The IBC-Br is the Central Bank’s Index of Economic Activity and is viewed as a “preview” for Brazil’s GDP. IBGE should release the official GDP data for the 2nd Q/2017 (and the first semester in two weeks – on 31st August.

The Central Bank also revised (upward) its IBC-Br for May, -0.51% ➔ -0.37%.