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Weekly Report Sept. 9-15 2017

Looking Ahead ➔ What to watch for?

- **16-19 Sept.** -- International Trade Administration, ASIS 2017, Dallas, TX
- **17th Sept.** – PRG Rodrigo Janot ends his term in office
- **18th Sept.** -- PGR – Raquel Dodge will replace Rodrigo Janot, ceremony at 08:00 a.m.
- **18th Sept.** – Pres. Temer to fly to NYC to open UN General Assembly annual session
- **18th Sept.** – Pres. Trump to host dinner for Presidents Michel Temer, Manuel Santos and Pablo Kuczynski in NYC
- **19th Sept.** – Pres. Temer to address UN General Assembly, opening the 72nd Session
- **19th Sept.** -- State Holiday in Rio Grande do Sul [*Farroupilha Day*]
- **19th Sept.** -- Central Bank ➔ July IBC-Br -0.% & -% in 2016
- **22nd Sept.** -- IBGE to post IPCA-15 ➔ +0.% vs +0.% in August
- **22nd Sept.** -- Caged data for August ➔ jobs lost versus July
- **23rd Sept.** -- Pres. Michel Temer to celebrate his 76th birthday
- **24th Sept.** – Legislative elections in Germany
- **28th Sept.** -- Brazil ranked ___ on 2017/2018 WEF “Global Competitiveness Index”
- **29th Sept.** -- Public Accounts data for August
- **29th Sept.** -- SRF to announce tax collections in August ➔ R$ billion, -% YoY
- **29th Sept.** -- FGV to post September IGP-M ➔ +0.% versus +0.% in August
- **29th Sept.** -- IBGE to release PNAD (National Household Sample) June-July-August
- **2nd Oct.** -- Trade Balance for September ➔ US$ billion (% YoY)
- **3rd Oct.** -- Auto production in September, units sold
- **6th Oct.** -- IBGE to post IPCA for September, +0.% vs. +0.% in August; 12-month +%
Observation: We will be in TopSail/Surf City, NC next week at the 55th reunion of my Brazil Peace Corps group. The following week visiting our son and his family in Fairfax, VA. Returning to Brasília on 2nd October. Therefore, the next issue of Brazil Focus should be sent out on 29th September.

1 - POLITICS

1.1 – Lava Jato

1.1.1 – Federal Police map out “Temer Gang”

Last week, the Lava Jato investigation described the “PT Gang of Eight” – reported in the 8th September edition of Brazil Focus.

Not to be “out done”, on Monday, 11th September, the Federal Police compiled a diagram detailing the “relationships” in the “PMDB corruption gang” – with Pres. Michel Temer at the center of this diagram – as “leader”, “coordinator” or “mastermind” of this scheme.

This Federal Police “report” entitled “O Quadrilhão do PMDB” [“The PMDB Big Gang”] analyzed an alleged “criminal organization” developed by the PMDB in the Chamber of Deputies that had Pres. Michel Temer as the “coordinator” of this group and that he used “third parties” operate this scheme. The Federal Police allege that “indications” were encountered that showed that Temer had received R$ 31.5 million via certain advantages”. One-half of this “gang” depicted above is in jail and the other half works with Pres. Temer at the Planalto Palace

Part of the information contained in this “report” came from the plea bargaining testimony by Lúcio Funaro and was included in the second denunciation of Pres. Temer prepared by the PGR (Janot’s “Swan Song”) that was delivered to the STF on 28th September. (See Item 1.1.2)
Federal Police diagram points to Temer at the center of the PMDB “corruption gang”


1.1.1.1 – Geddel requested suspension from PMDB

On Wednesday, 13th September, Geddel Vieira Lima formally requested to end his PMDB membership and the national Executive Committee accepted his request the same day. Geddel’s brothers – Lúcio (federal deputy) and Afrísio (Director-General of the Chamber) affirmed that Geddel is very upset because Pres. Temer abandoned him; not even one word in his defense. Some feel that Geddel might “tell all” that would be VERY BAD news for his former PMDB “colleagues”. To this end, Geddel’s close ally in Salvador, Gustavo Ferraz, has advised the federal police and federal prosecutors that he is “available” for plea bargaining testimony.

On 13th September, the PMDB national executive committee suspended Geddel and Sen. Kátia Abreu (TO) for 60 days.
Because of the alleged involvement of Geddel’s brother, Federal Deputy Lúcio Vieira Lima (PMDB-BA) in this corruption scheme, this case has been transferred to the STF.

On 14\textsuperscript{th} September, Geddel’s request to return to house arrest was denied. He claimed that he was at risk of being raped by other prisoners.

\textbf{1.1.2 – PGR denounced Pres. Temer (a second time)}

On Thursday afternoon, 14\textsuperscript{th} September, just three days before his term as Chief Federal Prosecutor ends on Sunday, 17\textsuperscript{th} September, the PGR Rodrigo Janot, presented his second denouncement of Pres. Temer to the Supreme Court. This time, Temer is accused of two crimes ➔ 1) Part of a Criminal Organization; and 2) Obstruction of Justice, Janot used the plea bargaining testimony of Lúcio Funaro and the special report on the “PMDB Corruption Scheme” prepared by the Federal Police (See Item 1.1.1 above). This group was accused of receiving $587 million in bribes.

SEVEN other politicians were also denounced ➔ Eliseu Padilha (Chefe da Casa Civil), Moreira Franco (Sec. Geral of the Presidency), former ministers Henrique Alves & Geddel V. Lima, Eduardo Cunha (former Chamber President), ex-federal deputy Rocha Loures) and Ricardo Saud (J&F).

The next steps ➔ 1) STF President Cármen Lúcia will request authorization by the Chamber for the STF to proceed this investigation; 2) The Chamber will send this to the CCJ to analyze the PGR request and submit a report to the full Chamber; and 3) For the Chamber to authorize this, 342 (out of 513 deputies) must approve this request. The Chamber rejected the first PGR denunciation by a 263 vote.

Because Judge Edson Fachin will await the STF decision regarding the validity of the JBS plea bargaining testimony (the PGR requested nullification of the leniency agreement), this case should be transmitted to the Chamber late next week.


This second denouncement by the PGR was in large part based on the Federal Police report and the plea bargaining by Lúcio Funaro.

This means that the Chamber’s activities will be concentrated on deliberating this denunciation and that most regular legislative activities will be postponed/suspended – including the political reform and the all important social security reform. Also, this means that the “tome lá, dá cá” (“tit-for-tat”) will again be the name of the game – where deputies will expect additional “side payments” [budget amendments “liberated” and federal appointments passed around] to guarantee votes in favor of Temer. However, many deputies complain that they have not yet received their “side payments” regarding the vote on the first denunciation. Oh well . . .
1.1.3 – Joesley Batista arrested

As reported by Brazil Focus last week, Joesley Batista and Ricardo Saud indicated in an audio recording that they had lied in their plea bargaining testimony in May 2017 and had withheld important information – incomplete testimony. On Friday, 8th September, the PGR requested that the STF issue arrest warrants for Batista, Saud and former federal prosecutor Marcello Miller. STF judge Edson Fachin deliberated this request and issued temporary arrest warrants for Batista and Saud (on Sunday, 10th September, but not for Miller, who had done extensive testimony with the Federal Police in Rio on Friday, 8th September. Anticipating this order, Batista and Saud delivered their passports to the Federal Police on Saturday, 9th September.

On Sunday, Batista and Saud turned themselves in to the Federal Police in SP and on Monday were flown to Brasília on a Federal Police plane. Also, on Monday, the Federal Police carried out several “search-and-seize” operations in SP and Rio at the homes and offices of Batista and Saud, plus the home of Miller in Rio and at the law office where he had been employed in Rio. Fachin also partially suspended (partially) the leniency agreement between the PGR and the Batista brothers established in May 2017. On 13th September, the OAB suspended Miller for 90 days.

Wesley Batista (age 47) was arrested by the Federal Police in São Paulo on Wednesday morning, 13th September with a warrant issued by federal judge João Batista Gonçalves of the 6th criminal circuit court. A second warrant for the arrest of Joesley Batista (age 44) was issued. Both were for preventative arrest (no release deadline). Federal prosecutors accused the Batista brothers of stock market and FX manipulations (insider trading, for profit) during the episode of the audio recording made by Joesley of his conversation with Pres. Temer ➔ US$ 100 million in “profits”. With Wesley in jail, JBS must now select another person to be its CEO. Also under investigation in this case are ➔ Francisco de Assis e Silva (JBS legal consul), Fernanda Tórtima (JBS lawyer), and Marcello Miller (former federal prosecutor).

On Thursday, 14th September, STF Edson Fachin determined that the arrest limit of Joesley Batista and Ricardo Saud be converted from “temporary” (5 days) to preventative arrest (no time limit). There was concern that if they were released they would flee Brazil on their private jet plane. Also, if they were released, the judge suspected that they would destroy evidence and documents.

Banks involved in loans contracted by JBS and in the sale of JBS assets are concerned with the “empty space” created by the arrest of Wesley Batista, and are pressuring for a “final solution” ➔ the selection of a new CEO to assume the command of JBS. However, the administrative council of JBS has refused to appoint a substitute for Wesley Batista who is considered the “top manager” of JBS and J&F.

The Batista Brothers are concerned (fearful) that Ricardo Saud might do a disastrous plea bargaining in the next few days. Joesley was transferred from Brasília to SP, and Raul Saud is in the Papuda prison in Brasília – the same as Geddel v. Lima.
1.1.4 – Lula denounced [again]

For the third time in September 2017, former President Lula was denounced again. This time by federal prosecutors in Brasília who have been investigating Operation Zelotes who on 8th September accused Lula and his then Chief of Staff Gilberto Carvalho of having been paid (compensated) to issue MP 471 in November 2009 that benefited two auto firms – Caoa & MCC → R$ 6 million. This scheme was intermediated by lawyer Mauro Marcondes and lobbyist Alexandre Paes dos Santos. Also denounced were Mauro Marcondes, Paulo Arantes (Ferraz (MMC) Carlos Alberto de Oliveira Ancreade (Caoa), Alexandre Paes dos Santos and his partner in the SGR consultancy, Ricardo da Silva. The prosecutors affirmed that the R$ 6 million was a Caixa Dois contribution to the PT.


1.1.5 – STF opened inquest against Temer

On 12th September, STF Judge Luís Roberto Barroso accepted a request from the PGR and opened an inquest regarding the circumstances under which Pres. Temer signed a decree that benefited a firm operating in the Santos, SP sea port. This decree expanded the concession limits from 25 to 35 years for firms receiving concessions after 1993 and with one renewal could be extended up to 70 years. Allegedly, only the Rodimar firm (operating in the Santos port) was the only firm benefited by this decree.


Now that this inquest is open at the STF, the PGR and Federal Police will conduct an investigation and report back to the Supreme Court.

1.1.6 – Lula interrogated by Judge Sérgio Moro [again]

In May 2017, Lula had his first interrogation by Judge Sérgio Moro in Curitiba regarding the alleged “bribe” he had received from Odebrecht and OAS in the form of a triplex apartment in the Edificio Solares on the beach front in Guarujá, SP. Judge Moro concluded this case and sentenced Lula to 9.5 years in prison.

Now, on 13th September, Judge Moro interrogated Lula a second time (during 2 hours and 10 minutes) regarding the accusations that he received bribes from Odebrecht in the form of two pieces of real estate ➔ a building lot for the construction of his Instituto Lula (R$ 12.5 million) and an apartment adjacent to his own apartment in São José dos Campos, SP (R$ 504,000,00). The building lot had been acquired by a third party “front” (go between), the firm DAG owned by Dermeval Galvão, and the apartment was also acquired by a “go between”, a relative of Lula’s dear friend José Carlos Bumlai, Glaucos da Costamarques.
Billboard for Lula “Welcome! The Republic of Curitiba waits you with ‘open bars’ [behind bars]”

All told, eight persons were denounced in this case ➔ Lula, Antonio Palocci, Bransilav Kontic, Paulo Melo, Dermeval Galvão, Glaucos da Costamarques, Roberto Teixeira (Lula’s lawyer and compadre) and Marcelo Odebrecht. Lula remarked that the Lava Jato task force wants to transform him into their PowerPoint. After Lula finished his interrogation, Judge Moro interrogated Bransilav Kontic – who served as Antonio Palocci’s “right hand man”.

Lula affirmed that Palocci’s testimony was “cold, calculated and simulated liar – and that he tried to transfer crimes he committed to others”.

Palocci – On 14th September, Antonio Palocci resigned his membership in the PT in order to avoid his expulsion that surely would have been requested by Lula to the PT national executive committee.
The PT organized some 50 buses to transport militants to Curitiba to demonstrate/pressure in Lula’s favor. The state of Paraná had some 1,000 police to cordon off a two-block perimeter around the federal court house.

Lula refused to answer many of Moro’s questions, replying “Antonio Palocci is in prison and it is his right to try to reduce his sentence [via plea bargaining testimony]”.

1.1.7 – José Dirceu judged by the TRF-4

On 13th September, the three-judge working group at the TRF-4 in Porto Alegre began deliberating the case of José Dirceu who had been convicted and sentenced by federal judge Sérgio Moro in Curitiba to 20 years and 10 months in May 2016. However, in May 2017, the STF released Dirceu to house arrest in Brasília. If the TRF-4 (second level federal court) confirms this sentence, Dirceu would have to return to jail. Two judges favored the confirmation of Dirceu's sentence and to increase the sentence - Judge João Pedro Gebran Neto voted to increase the sentence to 41 years, and Judge Leandro Paulsen voted to increase Dirceu sentence to 27 years. However, the third judge, Victor Luiz dos Santos Laus, requested vistas (to study this case further) and the session was interrupted.

1.1.8 – Temer vs. Janot at the STF

On 13th September, the Supreme Court deliberated the accusation by Pres. Michel Temer that the PRG, Rodrigo Janot, was “partial and anti-Temer” and requested that he be deemed “suspect” and removed from the investigations against Temer. The STF rejected Temer’s accusations and request by a unanimous vote. This was a bad defeat for Temer’s lawyer Antonio Mariz. This is what Janot was waiting for – a vote of confidence from the STF – so the next day he delivered his second denunciation against Pres. Temer to the Supreme Court. (See Item 1.1.2)

1.1.9 – Blairo Maggi

On 14th September, the Federal Police launcher Operation Malebolge the 12th phase of Operation Ararath. This operation was requested by federal prosecutors and authorized by STF Judge Luiz Fux – against Agriculture Minister Blairo Maggi (PP-MT). Maggi is a Senator on leave to occupy this cabinet position in the Temer government. Fux issued 64 search-and-seize warrants in Brasília, São Paulo and Mato Grosso with the participation of 270 federal police agents as well as federal prosecutors. One of these warrants was served at Maggi’s Senate apartment in SQS 309 in Brasília – that required “maximum discretion”.

This action was based on the plea bargaining testimony by former MT governor Silval Barbosa (PMDB-MT) that accused Maggi of paying a mensalinho (monthly payments) to state deputies when he was governor as of 2003.


1.1.10 – Eduardo Cunha

On Friday, 15th September, the Federal Police flew Eduardo Cunha from Curitiba to Brasília where he was scheduled to testify regarding corruption involving the disbursement of FI-FGTS funds at the CEF. He has been in jail since October 2016.

1.2 – Petros deficit

Since the removal (impeachment) of Pres. Dilma Rousseff, huge deficits in state enterprise pension funds were discovered ➔ Funcef, Postalis, Previ, Centrus, Eletros, etc.

On 13th September, the massive deficit in Petros (the Petrobras employees’ pension fund) was revealed and Petros managers affirmed that to “cover” part of this R$ 27.7 billion deficit the 77,000 participants will have to pay in an extra contribution over 18 years. This would amount to R$ 14 billion and the remainder would be covered by Petrobras and BR Distribuidora.

However, Aepet (Petrobras Engineers Assoc.) is going to court to question this “Adjustment Plan”. Aepet President Fernando Siqueira affirmed that “over the past 14 years the Petros’ Accounts were rejected by the fiscal council, but were eventually approved by deliberative council, that is controlled by Petrobras – and now the workers must pay for this abuse”.

This huge deficit was incurred between 2013 and 2015 under pressure from the PT that obliged Petros to invest in very questionable schemes – especially in Sete Brasil, the firm organized by the PT government to build offshore drilling platforms that eventually wound bankrupt. According to the EY consultants, Petros was forced to make some 70 other “bad” investments.

1.3 – Anthony Garotinho arrested

On 13th September, former governor and ex-presidential candidate (2002), Anthony Garotinho was arrested during his Radio Tupi radio program – “Show do Garotinho” in Rio – under a warrant issued by election court judge Ralph Manhães. The Federal Police then transferred Garotinho to the city of Campos, RJ where he was placed under house arrest and shackled with a GPS ankle bracelet. Garotinho is accused of promoting the chequinho scheme during the 2016 municipal elections – “Cheque Cidadão” [Citizen’s Check] and that he and his accomplices were “coercing witnesses” [witness tampering].

1.4 – PSD launched Meirelles for President

On Wednesday, 13th September, in the midst of tumultuous political events, the PSD launched Finance Minister Henrique Meirelles as its candidate for President in 2018. Meirelles quickly affirmed that his only concern was to recover Brazil’s positive GDP economic growth and thus was not interested in becoming a candidate in 2018.

This is a “trial balloon” by the PSD and will work to maintain Meirelles on the list of pre-candidates used in the public opinion polls. To become a candidate, Meirelles would have to resign (step down from) his cabinet post before 7th April 2018. By then, it is expected that Brazil’s worst
economic recession will have been “turned around” with more positive GDP results in 3rd & 4th Q/2017. IBGE should release the 4th Q/2017 ZGDP data in early April 2018.

PSDB pre-candidate, SP Mayor João Doria, affirmed that Meirelles should not become “contaminated” by politics.

2 – FOREIGN RELATIONS & TRADE

2.1 – Banco do Brasil leaves Portugal (and France)

Clients of the Banco do Brasil in Portugal have been advised that as of 6th November all branches of this Brazilian bank will be closed (in Lisbon and Porto). All local employees will also be sacked. This move by the BB was met by consternation by the Portuguese government. Now the BB will have branches only in ten foreign countries. On 14th September, it was revealed that the BB will also close its branch offices in France. Pres. Temer affirmed that he was not advised about these decisions.

2.2 – FAB rescued 14 Irma victims

At 01:30 a.m., Wednesday morning, a FAB plane landed in Brasília with 14 victims of Hurricane Irma in the Caribbean ➔ 8 Brazilians, one American, two Venezuelans and three Dutch. This plane took off =from St. Martin on 12th September and made on refueling stop at Trinidad Tobago. Among the 14 persons rescued were two children – one Brazilian and one Venezuelan. Itamaraty does not know precisely how many Brazilians were on the islands hit by Irma but that most escaped by other means. Totola Island has no airplane landing facilities and the Brazilians on the Turks and Caicos Islands have been accounted for.

2.3 – Temer ➔ UN

The swearing in of the new PGR, Raquel Dodge, was anticipated for 8:00 a.m. on Monday morning, 18th September, so that Pres. Temer could attend and then embark for NYC to deliver the opening address at the UN General Assembly on 19th Sept. Finance Minister Henrique Meirelles will accompany Temer and try to “sell” Brazil’s new investment opportunities (concessions, etc.) with NY investment groups. On Monday evening, 18th September, US Pres. Trump will host a dinner for Temer and the Presidents of Colombia and Peru ➔ the agenda, convince these three South American Presidents to pressure Venezuela to cease its anti-democratic policies.

Detail: Brazil has the second largest outstanding debt with the UN ➔ US$ 321.3 million.

3 – REFORMS

Nothing this week.
4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Services Sector declined in July

On 13th September, IBGE announced that the services sector had declined by -0.8% (MoM) & -3.2% (YoY) in July. The decline in 2017 was -4.0% and -4.2% over the past 12 months.

5.2 – July IBC-Br ➔ +0.41%

On 14th September, the Central Bank released its IBC-Br for July (+0.41%) and +1.41% for 2017. The IBC-Br (Index of Economic Activity) is considered a preview of Brazil’s GDP. This was the second consecutive month that the IBC-Br was positive.

5.3 – Capital Goods, Imports increase in August

After 42 months of continued decline, finally in August, the import of capital goods was up by +5.5%. Between January and July 2017, the decline totaled 24.4%. This is seen as a good sign that investments in capital goods are up; meaning that if this trend continues toward the end of 2017 such investments should produce increased production with innovation and the creation of new jobs.