Brazil Focus –
David Fleischer
Phone/FAX: 55-61-3327-8085
Cell: 99218-2771 e-mail:
Fleischer@uol.com.br
Weekly Report
Feb. 10-23 2018
Looking Ahead ➔ What to watch for?

- 28<sup>th</sup> Feb. -- January Public Accounts
- 28<sup>th</sup> Feb. -- OECD Secretary-General, Angel Gurria, will visit Brasília
- 1<sup>st</sup> March -- Fenabrave, auto units sold in February (% YoY)
- 1<sup>st</sup> March -- Trade Surplus for February 2018 ➔ US$ billion
- 1<sup>st</sup> March -- IBGE to announce Brazil’s GDP in 4<sup>th</sup> Q/2017 ➔
- 2<sup>nd</sup> March -- January INSS deficit ➔ -R$ billion
- 4<sup>th</sup> March -- El Salvador – general elections
- 5<sup>th</sup> March -- Caged data ➔ jobs created in January
- 6<sup>th</sup> March -- Central Bank to announce savings accounts data for January
- 7<sup>th</sup> March -- FGV to release February IGP-DI ➔ +0.% versus +0.% in January
- 8<sup>th</sup> March -- International Women’s Day – 107<sup>th</sup> Anniversary
- 8<sup>th</sup> March -- Central Bank – FX flow in February ➔ US$ billion
- 8<sup>th</sup> March -- IBGE ➔ January IP data, % YoY & % MoM
- 9<sup>th</sup> March -- IBGE -- IPCA data for February ➔ +0.% vs. +0.% in February 2017
• **11th March** – US to go on daylight-savings time  
  ➔ Return to 1-hour difference NYC/Brasilia

• **11th March** --  Colombia – Legislative elections

• **13-15 March** – WEF for Latin America to meet in SP

• **15th March** -- FGV ➔ income inequality in 2016 ➔ 2017; Gini Index, 0. ➔ 0.

• **13-17 March** -- World Social Forum to meet in Salvador, Bahia

---

**1 - POLITICS**

1.1 – Federal Police Director bungled *Reuters* interview

On Carnaval Friday, 9th February, Federal Police Director Fernando Segovia gave a devastating interview with *Reuters* Brazil. He stated (affirmed) that the Federal Police would “soon” file (end) its investigation of possible corruption regarding a MP (decree) that Pres. Temer signed that benefitted Rodimar (an important shipping agent at the Santos port). He added that the evidence is “very fragile”. There were accusations of bribes paid to secure specific clauses in this decree and that ex-Deputy Rocha Loures (one of Temer’s key staffers in the President’s office was a “go-between” in this episode.

**The problems?** 1) This Federal Police investigation is still on going; 2) Segovia is a long-term “disaffect” of the Federal Police officer (*delegado*) – Cleyber Lopes - who is conducting this investigation; 3) In recent weeks, Segovia met **twice** with Pres. Temer “clandestinely” (not on the President’s agenda); and 4) Segovia was appointed by Temer at the “suggestion” for former President and former Senator José Sarney – because Segovia had been Federal Police representative in the state of Maranhão and had performed “positively” *vis-à-vis* the Sarney group and its allies. The day after he assumed this post, Segovia “minimized” the importance of the episode where Rocha Loures had received a suitcase filled with R$ 500,000,00 delivered by JBS. This episode had been monitored by the Federal Police who recorded a video of Rocha Loures running out of a SP pizzeria toting the roller suitcase – and later arrested Rocha Loures and discovered that he had “removed R$ 30,000,00 from the suitcase (that he eventually returned after his arrest).

The criticism was “fast and furious” – from the OAB (Brazil’s Bar Association), judges’ associations, and the Association of Federal Police *delegados* – that Segovia’s behavior (statements) had been very “inappropriate”.— given the nature of his position.

*Photo: Portal 6*
Fernando Segovia

Want more? Quickly, STF Judge José Luiz Barroso the designated reporter on this investigation, summoned Segovia to the STF to “give explanations” regarding his Reuters interview – on Monday, 19th February. Second, as an example of very “trashy, incompetent” journalism, Reuters Brazil “backtracked” and modified the text of this interview into “less emphatic language” after the original interview had been published. Segovia had a 20-minute meeting with Judge Barroso where the Federal Police Director explained that he had “been misinterpreted” in his Reuters interview and that he had no intention of suggesting that the investigation of Temer’s role in the Santos port case would be “closed soon”. He vowed that he would never intervene into any Federal Police ongoing investigation.

At first, Temer’s office was “pleased” with this interview – but after the very negative reaction decided that Segovia had made a very bad mistake. Many observers feel that Segovia no longer has the confidence of his Federal Police colleagues and that it will be very difficult for him to continue in this post. On Monday, 12th February, Pres. Temer left his Carnaval retreat in Rio and flew to Boa Vista, Roraima to “deal with” the crisis of 40,000 Venezuelan refugees in that city and their possible relocation to other Brazilian states. Most saw this as a lame effort to divert attention from the “Segovia case”. In a quick dialogue with the press, Temer refused to comment regarding whether Segovia had conditions to continue as Federal Police Director – very symptomatic.


http://www1.folha.uol.com.br/colunas/leandrocolon/

Apparently, this “blunder” by Segovia has produced a “reverse effect” – this inquest will now be expanded to include the breaking of fiscal and bank secrecy for Pres. Temer, Rocha Loures and others involved, and the scope of this investigation broadened.

➔ When you have “allies” like Segovia, you don’t need enemies!!

1.2 – Federal intervention in State of Rio de Janeiro

After a “flurry” of national and international press reports of accentuated violence in Rio during the Carnaval celebration, on Friday, 16th February Pres. Temer signed a decree for federal intervention in the state of Rio de Janeiro until the end of his Presidential term (31st December 2018). However, this is considered a partial or limited intervention – only into the Public Safety/Security sector of the
state, and is not a total intervention (where the Governor is replaced. Also, this intervention needed to be quickly approved by both houses of Congress. Pres. Temer named General Walter Souza Braga Netto to intervene and become the new State Secretary of Public Safety/Security. Reportedly, the Governor of Rio de Janeiro, Luiz Fernando Pezão “requested” this intervention. Pezão affirmed that “We have not been able to stop the warfare among rival organized crime groups in Rio”. Braga Netto commanded the Army contingent in Rio during the 2016 Olympic Games and the Army detachment during the Public Security crisis in the state of Espírito Santo in 2017.

The situation in the State of Rio is not “new” (did not irrupt during Carnaval) – but rather has been growing worse and worse over the past three or four years, in spite of the use of Federal Armed Forces contingents plus the National Security Force. The state of Rio is in the worst fiscal crisis of any other state and the state police (PM) lacked funds – for gasoline, for repairs on police vehicles as well as overdue police salaries. Detail: This is the first federal intervention in a state since the new Constitution was adopted in September 1988.

**Consequences ➔ 1)** Because the 1988 Constitution says that no PECs can be approved by Congress during such an intervention period, this intervention should serve as a “pretext” for not voting on the Social Security Reform PEC in Congress; and **2)** Together with the creation of the new Ministry of Public Safety/Security (See Item 1.2.1 below), this intervention measure serves to divert/distract press and public attention away from the Federal Police investigation of Pres. Temer (See Item 1.1). Temer wants this area of Public Safety/Security to be the most important special public policy area of his government, in that this question is frequently cited in polls as of “grave concern” by Brazil’s population.

**First Consequence ➔** On Sunday, 18th February, a rebellion broke out at the state prison in Japeri, RJ. An escape attempt was foiled and the prisoners rebelled and held eight prison agents hostage. Somehow, the prisoners had three firearms that were smuggled into this prison. After long and tense negotiations, they were released and the rebellion ended. Three prisoners were injured but their condition was considered “stable” (not life threatening).

Apparently, with this intervention, the federal government will be obliged to assume **ALL** the funding of the Public Safety/Security sector in the state of Rio, and legislation to this effect will have to be approved.

**Second Consequence ➔ ALL** 149 PECs being deliberated by the Senate or Chamber are suspended until January 2019.

**Detail:** The “seed” of this intervention was “planted” by Justice Minister Torquato Jardim in October 2017 when he declared that commandants of the PM-RJ were linked to negotiations between certain state deputies and organized crime groups in Rio. This statement provoked angry responses by the RJ Governor Luiz Fernando Pezão (MDB) and the PM-RJ officials ➔ **but** this is now confirmed by this intervention.

**Collective Warrants** – The Armed Forces and the Defense Minister affirmed that “collective” warrants (Search-and Seize”) would be requested with judges in Rio to facilitate operations against organized crime groups in Rio. This means that a warrant would be issued for a specific geographic area and not a specific address ➔ such as a *favela*, a street or a neighborhood. These “collective”
warrants have been used in the past, but their legitimacy (constitutionality) has been challenged, and probably will also be challenged in 2018. The AGU affirmed that she would defend the use of “collective” warrants before the STF, if necessary.

1.2.1 – New cabinet Ministry to be created

Pres. Temer also signed a MP creating the new Ministry of Public Safety/Security with units transferred out of the Justice ministry → the Federal Police (PF), Federal Highway Police (PRF), federal penitentiary police and National Security Force. Apparently, the consensus regarding the new ministry to be appointed to this post is José Beltrame, a former Federal Police officer and ex-Security Secretary in Rio. Reportedly, current Defense Minister Raul Jungmann was discussed, but the Armed Forces said “No” because of the difficulty in finding a competent replacement equal to Jungmann.

1.2.2 – MG, ES & SP – met with Justice Minister

The secretaries of public safety/security of Minas Gerais, Espírito Santo and São Paulo met with the Justice Minister on Thursday, 22nd February, to express their “concern” vis-à-vis the intervention in the state of Rio de Janeiro. These three states are worried that the more effective efforts against organized crime groups in Rio might provoke them to “migrate” to these three neighboring states.

1.2.3 – Temer convoked Councils of the Republic and Defense

AFTER he signed the decree for the intervention in Rio, Pres. Temer decided to convocate the Council of the Republic and the Council for National Defense for a joint meeting on Monday, 19th February. The approval” of this intervention by these Councils is not necessary, but the 1988 Constitution says that they must “be heard”. The combined Councils agreed with the intervention – but the two Opposition votes present (PT floor leaders in the Senate and Chamber) abstained.

1.2.4 – Congress approved the intervention

As required by the 1988 Constitution, the Rio intervention was submitted to Congress for approval. The Chamber session began at 7:00 p.m. on Monday, 19th February. After the quorum of 257 deputies present, discussions and deliberations began and the final vote was achieved shortly after 02:00 a.m. → 340 votes in favor and 72 negative.

The negative votes were mostly from Opposition parties:

<table>
<thead>
<tr>
<th>Party</th>
<th>Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCdoB</td>
<td>- 8</td>
</tr>
<tr>
<td>PSol</td>
<td>- 6</td>
</tr>
<tr>
<td>PT</td>
<td>- 49</td>
</tr>
</tbody>
</table>

A few other scattered “Nay” votes appeared in other parties:

<table>
<thead>
<tr>
<th>Party</th>
<th>Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avante</td>
<td>- 1 of 2</td>
</tr>
<tr>
<td>Podemos</td>
<td>- 1 of 10</td>
</tr>
</tbody>
</table>
This measure was then deliberated by the Senate on Tuesday, 20th February. The reporter for this decree was Sen. Eduardo Lopes (PRB-RJ) – the suplente who assumed the mandate of Marcelo Crivella when he became Mayor of Rio on 1st January 2017. Five government coalition Senators and five from the Opposition addressed the Senate before the floor vote was called.

Just before midnight, the Senate vote was complete 70 (out of 81) present and voting -- 55 in favor on the intervention and 13 against, with one abstention. And one not voting (Senate President Eunício Oliveira (MDB-CE)

1.3 – Transparency International Corruption Index

On Wednesday, 21st February, Transparency released its CPI-Corruption Perceptions Index for 180 countries in 2017. In this index, Brazil dropped 17 notches to rank 96th (Score of 37(out of 100) – the worse decline for Brazil since this index was established in 1965. In 2016, Brazil was ranked 79th. Brazil’s best ranking was “69th” in 2010 and 2014 – before the Lava Jato investigation began. Apparently, Perceptions of Corruption in Brazil got much worse in 2017 because the government, politicians and the STF tried to inhibit the investigations and make the work of judges, prosecutors and the Federal Police more difficult. Brazil’s best rank was 36th in 1997.

Another problem in 2017 was that bribes paid by Brazilian construction firms to executives in other Latin American nations were uncovered – Venezuela, Colombia, Peru, Ecuador, Panama, etc.

In 2017, Brazil is tied (same rank) with Colombia, Indonesia, Panama, Peru, Thailand and Zambia.

https://brasil.elpais.com/brasil/2018/02/20/politica/1519152680_008147.html

1.4 – Lava Jato

1.4.1 – Operation Integração

On 22nd February, the Federal Police launched Operation Integração in Paraná, Santa Catarina, Rio de Janeiro and São Paulo. This was the 48th Lava Jato operation and the first in 2018. This operation investigates corruption in highway contracts in what is called the “highway ring” that links
the principal cities in Paraná – bribes paid to PR state DER employees as well as those in the federal DNIT plus the Casa Civil of the PR Governor. to secure highway construction contracts, and money laundering via two well known money changers (doleiros) – Adir Assad and Rodrigo Tacla Duran. Some R$ 453 million was paid in bribes. These bribes were paid by the concession holders of the toll roads in Paraná to promote an increase in tolls much above the inflation rate, and much above the toll increases in other states, such as São Paulo.

1.4.2 – Other cases

CEF ➔ Former superintendent of the CEF’s Special Investment Funds, Roberto Madoglio, admitted in his plea bargaining testimony with federal prosecutors that he had received bribes from Odebrecht to “liberate” these funds. He promised to return R$ 39.2 million (US$ 12.2 million) from his accounts in Switzerland and Uruguay. This is part of two Federal Police operations ➔ Sépsis and Cui bono, under investigation by 10th Federal Circuit Court in Brasília.

Drilling Platforms ➔ The Federal Police has opened an investigation regarding bribes paid by a consortium of Technip and the Keppel Fels Group regarding contracts with Petrobras to construct five drilling platforms – P-51, P-52, P-56, P-58 and P-62. This operation was based on the plea bargaining testimony by Zwi Skornicki, the bride operator for these contracts, with the participation of Fredric Delormel, an executive of Technip. Part of these bribes (US$ 4.5 million) was channeled to the PT campaign marketing specialists João Santana and Monica Moura who confessed same in their plea bargaining testimony concluded in March 2017.

Paulo Maluf – Last year the STF issued an arrest order for Dep. Paulo Maluf (PP-SP) and he was imprisoned in the Papuda prison in Brasília. The STF also “suggested” that his mandate be canceled (cassado). But this is the exclusive prerogative of the Chamber. Thus, on 19th February, Chamber President Dep. Rodrigo Maia (DEM-RJ) suspended Maluf’s mandate (so that his suplente could be sworn in – but his cassação would only be accomplished by a majority open vote by the Chamber. The first suplente on the 2014 coalition list (MDB, Pros, PP and PSD) was former Mayor of Mogi das Cruzes – Junji Abe (PSD). Abe has one conviction by a second level court for administrative impropriety plus several cases where he is accused of corruption – definitively not a ficha limpa.

Batista Brothers were released from prison by order from the STJ into “house arrest” by a 3-to-3 vote by the 6th STJ working group. The tie breaking vote was cast by Sebastião Reis Junior. Wesley went into house arrest, but Joesley remained in prison due to a second arrest warrant.

Paulo Preto – was the head of DERSA (the state highway unit in SP during the governorship of José Serra (PSDB). On 21st February, federal prosecutors received documents from Switzerland showing that Paulo Preto (Paulo Vieira de Souza) has R$ 113 million (35 million Swiss francs) deposited in a Swiss bank (Bordier & Cie.) and in the name of Panama off shore Grupo Nantes S/A.

Negromonte – On 21st February, the STJ accepted (unanimously) the accusation against Mário Negromonte, ex-Minister for Cities under Pres. Dilma Rousseff. Before Dilma’s impeachment, Negromonte became a judge of the Bahia state Accounting Court (TC-BA in 2014. He is accused of taking a bribe of R$ 25 million to favor a firm using GPS to monitor vehicles (when he was Minister). With this STJ decision he was dismissed from the TC-BA.
Antonio Palocci – After his request to do more plea bargaining testimony before the TRF-4 was refused (do this back with Judge Sérgio Moro), the TRF-4 resounded with an order to block all the assets held by his daughter and step daughter.

José Dirceu had a third corruption accusation accepted by Judge Sérgio Moro on 20th February and he is now formally accused in a third corruption case. This recent case involves a R$ 2.4 million bride paid by Engevix and UTC.

Lula – On 20th February, an employee of the cartório (deeds registry office) in Atibaia testified that he had been instructed to produce a draft of the deeds of the two dachas (rural properties) in Atibaia in the name of Luiz Ignácio Lula da Silva. These documents were confiscated during a Federal Police “search-and-seize” operation at Lula’s residence (apartment) in São Bernardo do Campo. This testimony reinforces the federal prosecutors’ accusations that indeed Lula is/was the “real” owned of these properties, in spite of the legal registry be in the names of two “dear friends” of Lula’s son.

Garotinho – On 21st February, former RJ governor Anthony Garotinho was hospitalized in Rio with “chest pains”. At the end of 2017, he was arrested due to accusations of “vote buying” in the municipal election in Campos where his wife ran for Mayor. After one month in prison, he was released by a habeas corpus issued by STF Judge Gilmar Mendes. Currently in the PR party, Garotinho was arrested in 2016 but was released under police custody to undergo heart surgery to unblock a heart artery. Garotinho hopes to be the PR candidate for governor in 2018.

Fecomercio-RJ ➔ On 23rd February, the President of the Commercial Federation in Rio de Janeiro, Orlando Diniz, was arrested during Operation Jabutí, a new phase of Operation Calicute. Diniz is accused of money laundering within the general scheme of former governor Sérgio Cabral. Diniz induced Fecomercio-RJ to pay R$ 180 million in lawyer fees with R$ 20 million going to the law office of Adriano Ancelmo (Cabral’s wife). In December 2017, Diniz was removed from the command of SESC (Commercial Social Service) due to allegations of “irregularities”.

Federal police and prosecutors are now investigating the “linkage” between Lula’s dear friend (compadre) and lawyer, Roberto Teixeira, with this Fecomercio “scheme”. His law office was one of those involved in the money laundering scheme.

1.4.3 – Foro Previlegiado

Last year, when the STF already had a majority to put an end to the Foro Previlegiado that allows deputies, senators, cabinet ministers, etc. to be tried (prosecuted) by the STF, Judge Dias Toffoli requested “vistas” to study this case more. At the time, he said that he would only “release” this case after Congress had deliberated this question. Now it appears that that will never happen (at least in 2018), so reportedly Toffoli has said that he will release this case back to final deliberations at the STF.

➔ Stay tuned!!!

1.5 – Seven parties might “disappear” from the Senate
It is possible (probable) that up to seven parties might disappear from the Senate in 2019. The mandates of two-thirds of the Senators run until 1st February 2019. Several of these senators are the only representatives of their party in the Senate:

- **Pastor Bel** PRTB Maranhão
- **Eduardo Lopes** PRB Rio de Janeiro
- **Pedro Chaves** PSC Mato Grosso do Sul
- **Randolfe Rodrigues** Rede Amap’s
- **Hélio José** Pros Brasília
- **Cristovam Buarque** PPS Brasília
- **Vanessa Grazziotin** PCdoB Amazonas

Randolfe Rodrigues (Rede-AP) is an extremely active Senator, leads the election polls in Amapá, and probably will be reelected. Eduardo Lopes is the suplente (alternate) to Sen. Marcelo Crivella (PRB-RJ) who was elected Mayor of Rio in 2016 and has no chance of reelection. It is possible that the PRB will run a “well known” bishop for this seat. Hélio José was the suplente Rodrigo Rollemberg (PSB) who was elected governor of Brasília in 2014 and has been a very “lackluster” Senator since 2015. Vanessa Grazziotin has been a very “activist” Senator on the Left, but the polls show she has no chance of reelection in Amazonas. Cristovam Buarque was Rector of UnB and PT governor of Brasília elected in 1994 and defeated for reelection in 1998 by former governor Joaquim Roriz. In 2002, Buarque was elected Senator and became Lula’s Education Minister in 2003 but was dismissed unceremoniously by José Dirceu in early 2004. He returned to the Senate and switched to the PDT to become a presidential candidate in 2006, and then reelected in 2010 and later joined the PPS. He would like to become a presidential candidate again in 2018, but the PPS has “other plans”. Polls show that his reelection in Brasília could be “difficult”.

With the reelection of Randolfe Rodrigues (Rede) guaranteed, it is possible that the PRTB, PRB, PSC, Pros, PPS and PCdoB might not have any senators in 2019.

The PTB has two senators in 2018 – Telmário Mota (RR) and Armando Monteiro (PE). The latter will not run for reelection and the former might not be reelected.


1.6 – Lula’s Zelotes testimony in Brasília “suspended”

Lula and his son, Luiz Cláudio Lula da Silva, were scheduled to be interrogated by 10th Federal Circuit Judge Vallisney de Souza de Oliveira on 20th February. **However, 15th February, TRF-1 judge Néviton Guedes responded to the request by Lula’s lawyers and issued an injunction postponing (suspending) this interrogation until ALL the witnesses have been interrogated by Judge Vallisney. Some of the witnesses convoked by the defense lawyers reside over seas.**

1.7 – 2018 Presidential Campaign
With the candidate deadline looming close at hand ➔ March 1st, when pre-candidates must confirm their party membership, **TV Globo** star Luciano Huck declared that he would not be a candidate on 15th February. **However**, some observers feel that before the 1st March deadline he might again change his mind. Apparently, the main reason for Huck’s decision was the possibility of not being able to construct an adequate party coalition in support of his candidacy that would give him sufficient TV campaign time. One major center-right party, DEM, closed its doors to Huck – articulated by Dep. Rodrigo Maia (DEM-RJ) – a potential pre-candidates himself. Also, **TV Globo** has told him that once he becomes a “formal” candidate he would be “off the air” and probably his wife, Angelica, would have her **TV Globo** program canceled as well.

Huck’s decision might be reversed before the 1st March deadline, but probably not. If Huck is not a candidate, he might become quite active in support of other candidates – President, Governors, Senators and Deputies.

Much to the despair of SP Gov. Geraldo Alckmin (PSDB, pre-candidate for President, senior PSDB “statesman”, former President Fernando Henrique Cardoso chatted several times with Luciano Huck and stimulated him to run for president, calling him a “very good candidate”. Now that Huck has dropped out of the presidential race, FHC is in search of another “outsider” to support – perhaps Flávio Rocha, the owner of Lojas Riachelo – who is a very articulate business leader and a Pentecostal Evangelical.

**1.8 – Bank workers on strike**

On 19th February, Brazilian bank workers went on strike protesting the proposed PEC for the Social Security Reform. This work stoppage was decided **before** Pres. Temer decreed the intervention in the sector of Public/Safety/Security in the state of Rio on Friday, 16th February that precluded the approval of any PEC while this intervention remains in effect.

**1.9 – Minister Luislinda sacked**

The Minister of Human Rights, Luislinda Valois, was sacked on 19th February. After “patiently” waiting for her to resign, the Temer government said “enough is enough” and ended her tenure. An Afro-Brazilian from Bahia, Luislinda was a retired judge on the Bahia state court (TJ-BA) and made headlines in 2017 when she tried to accumulate her salary as cabinet minister with her retirement pension from the TJ-BA for a total of R$ 61,400,00 per month – much above the maximum federal salary allowed. She complained that her salary as cabinet minister (R$ 33,700,00) was the equivalent of “slave labor”.

The press reported that due to the “negative reaction” regarding her “exit” from the Ministry of Human Rights, Luislinda Valois advised Pres. Temer that she would not participate in an event organized by the UN Human Rights Council in Geneva.

**1.10 – PTB ➔ Labor Ministry**
Because the so-called “blackmail” by PTB national president Roberto Jefferson *vis-à-vis* Prcs. Temer regarding the guarantee of the PTB votes in favor of the Social Security PEC in return for the appointment of his daughter Dep. Cristiane Brasil (PTB-RJ) as Minister of Labor has come to “naught”, on February, the PTB delegation in the Chamber decided to indicate another name for Labor. There was a “conflict” between the PTB delegation in the Chamber (that wanted to indicate a PTB deputy to fill the empty slot at the Labor ministry, and the position of PTB national president Roberto Jefferson, who wants the interim minister, Helton Yomura to be appointed Minister. Apparently, he is a “close friend” of Jefferson’s daughter, Dep. Cristiane Brasil (PTB-RJ). Because of this lack of consensus, Pres. Temer decided that Yomura will remain interim minister until late March/early April when he will complete a major cabinet reform when some 11 or 12 cabinet ministers “step down” to become candidates in the October 2018 elections.

1.11 – “Criminal” mothers

On 20th February, the STF second working group decided that mothers of children up to age 12 should be released from preventative to home arrest in order to adequately care for their children. There would be no age limit for children with “deficiencies”. Reportedly, this ruling should affect some 15,000 mothers. However, some observers feel that now organized crime groups will selectively recruit these “mothers” into their ranks.

2 – FOREIGN RELATIONS & TRADE

2.1 – Nicolas Maduro rejected by Summit of the Americas

The Eighth Summit of the Americas is scheduled to meet in Lima, Peru on 13-14 April. Two months in advance, on 13th February, the Peruvian Foreign Minister Cayetana Aljovin announced that the invitation for Venezuelan President Nicolas Maduro had been cancelled – as a *persona non grata* in Peru. Whether other *Bolivarian* nations (Cuba and Bolivia) will boycott this Summit in protest is an open question. The Foreign Minister affirmed that this decision had the support of the 12 nations of the so-called “Group of Lima” that had just met to outline the agenda for the 8th Summit. She said that within the “Declaration of Quebec” (2001) that “any democratic rupture” would be an insurmountable obstacle for the participation of any such nation in the Summit of the Americas”. She said that this was definitely the current case of Venezuela.

ALL Peruvian political parties supported a motion in parliament that Nicolas Maduro be considered a *persona non grata*.


➢ Reportedly Maduro plans to defy his “exclusion” from this Summit, and will fly to Lima anyway. It remains to be seen whether his plane will be allowed to land at the Lima airport.

However, Ecuador reacted very negatively regarding the “exclusion” of Venezuela from this summit.

Brazil is proposing that Venezuela be suspended from the OAS

2.2 – Extradition of Raul Schmidt??

Although Schmidt has been under arrest since early February and his *habeas corpus* was denied, it is still uncertain whether he will be extradited to Brazil. **Why?** Because in July 2017, the Portuguese naturalization law was changed so that grandchildren of Portuguese citizens received what became called “citizenship of origin”. Whether Schmidt will be extradited must now be decided by the Supreme Court.

On 15th February, Portuguese courts released Schmidt from custody – possible extradition became more difficult.

2.3 – Brazil to join the OECD??

Brazil has intensified negotiations with the OECD to become a permanent member of this important international organization. In the Americas, only Canada, the US, Mexico and Chile are full members of the OECD. Career Brazilian Diplomat Carlos Márcio Cozendey, the current sub-secretary general of Economic and Financial Affairs at *Itamaraty* was recently designated by Pres. Temer to be Brazil’s representative with all international organizations located in Paris – including the OECD. He will receive the Secretary General of the OECD Angel Gurria in Brasilia on 28th February when a new OECD research document regarding Brazil will be launched. Brazil’s acceptance as a full member of the 35-member OECD depends on Brazil’s “performance” on 237 different criteria. Brazil has already fulfilled 36 of these criteria and working on another 74 – but has not yet adequately acted on the remaining 127 criteria.

Currently, three other nations are in the final stages of integration in the OECD – Colombia, Costa Rica and Lithuania. Five other nations, besides Brazil, have filed their membership intentions – Argentina, Bulgaria, Croatia, Peru and Romania.

2.4 – Venezuelan refugees in Roraima

As mentioned in *Item 1.1*, on 12th February, Pres. Temer flew to Boa Vista, Roraima to observe and “deal with” the Venezuelan refugee crisis there – 40,000 refugees there already and many more pouring across the border every day. Temer decided not to close off the border for these refugees. He affirmed that Brazil would “soon” begin transferring these refugees to other states further south. Some 25% of these refugees hold college degrees and so it would not be too difficult to insert them into the job market. More Brazilian Army troops with be added to the contingent already there, and the Venezuelan medical doctors involved in the “Mais Médicos” program will be transferred to Roraima. The Army will install a “field hospital” near the border town of Pacaraima. Brazilian officials were surprised to that many of these refugees had never received any vaccinations for common diseases. For example, a young refugee child had to be hospitalized because of measles that has more or less been eliminated in Brazil.
The first groups of Venezuelan refugees transferred out of Roraima will go to Amazonas and São Paulo

2.5 – UK sold HMS Ocean to Brazil

On 19th February it was announced that the UK had sold the HMS Ocean aircraft carrier to Brazil. This amphibious assault vessel had been the “flagship” of the Royal Navy fleet since 2015. The “flagship” role will now be assumed by the HMS Queen Elizabeth that is completing sea trials.

The Ocean was sold to Brazil for US$117 million and will be modified by BAE Systems and the Babcock International Group before it is delivered to Brazil in June. The Queen Elizabeth aircraft carrier can accommodate up to 36 fixed-wing Lockheed Martin F-35 fighter planes

2.6 – Canada ➔ Mercosul

In lieu of a possible breakup of Nafta, Canada will begin free trade talks with the four Mercosul nations in Paraguay on 9th March. About 75% of Canada’s exports go to the US, and so Canada is looking for alternatives.

Currently, Canada’s bilateral trade with Mercosul totals about US$ 6.38 billion per year. On the other hand, bilateral trade with the Pacific Alliance (Mexico, Colombia, Peru and Chile is about US$ 38.4 billion per year.

Canadian trade minister François Philippe Champagne will travel to Chile where he will sign the new 11-member CP-TPP trade agreement (that was revised after the US Pres. Trump left the TPP in 2017).


Want more? Fearing the end of NAFTA, Mexico is negotiating to buy corn from Brazil.

3 – REFORMS

3.1 – All PECs postponed

On 19th February, Senate President Eunício Oliveira (MDB-CE) affirmed that ALL PECs (Constitutional Amendments) being deliberated in the Senate and Chamber were postponed (suspended) until after the Rio intervention. Thus, the Social Security Reform PEC was suspended until 2019. Pres. Temer “toyed” with the idea of when enough votes had been mustered to approve the Social Security Reform that the Rio intervention would be temporarily suspended to permit this vote. However, the STF quickly explained that this would not be viable.
Another downgrade?? Because of the suspension of the Social Security Reform until 2019, it is very possible that the risk evaluation agencies (S&P, Fitch, Moody’s, etc.) might downgrade Brazil yet another “notch” in the next few weeks. (See Item 5.3)

Social Security Reform – Without this reform in place, the Temer government will be forced to cut R$ 14 billion from the 2019 budget proposal – to cover the increase in the Social Security deficit in 2019.

4 – PRIVATIZATION & REGULATION

4.1 - ANTT

On 20th February, Pres. Temer appointed a new Director-General of ANTT-the Regulatory Agency for Land Transportation ➔ Mário Rodrigues Junior. Problem: In their plea bargaining testimony, executives of OAS, Andrade Gutierrez and Odebrecht accused Rodrigues Jr. of receiving R$ 1.2 million bribe related to the construction of part of the Rodoanel (the SP highway “ring” around the state capital) in 2006. Thus, in a certain way, he has considerable “experience” in the highway transportation sector. Obviously, these allegations will be considered in his confirmation hearings at the Senate. Detail: After these press reports, Pres. Temer affirmed that he “did not know” about these accusations. Supposedly, all appointments and nominations must be “cleared” by ABIn to make sure that they are fichas limpas. But, apparently, this procedure is not used by the Temer government.

4.2 – Suzano and Fibria discuss possible merger

After the recent acquisition of Eldorado by Paper Excellence (sold by JBS), two Brazilian “giants” in the cellulose sector are now discussing a “partnership” or merger ➔ Suzano and Fibria. This strategy would unite two traditional families in this sector – Feffer (Suzano) and Votorantim (Fibria). The gross income of these two firms in 2017 was R$ 10.5 billion and R$ 11.7 billion, respectively. Both have participation of BNDES-Par.

4.3 – Petrobras to sell TAG

Petrobras is advancing procedures to ready TAG-Associated Natural Gas Transporter that operates in the north and northeast regions. A 10% stake will remain with Petrobras. Several groups are interested ➔ United Arab Emirates Sovereign Wealth Fund, Singapore Sovereign Wealth Fund, Prumo Logistica (EIG), Macquarie (Australian consortium), Canada Pension Fund Investment Board, Itausa and a consortium led by Engie. TAG has 4,500 Km of gas pipe lines and its annual gross was US$ 4.7 billion in 2017. TAG is one of the principal assets in the Petrobras divestment program and might raise at least US$ 5.2 billion (that was the result of the sale of the NTS gas pipe line system to Brookfield in 2016). In January, Engie executives had a special encounter with Petrobras President Pedro Parente, during the WEF conclave in Switzerland.

5 - ECONOMICS
5.1 – February Inflation

IGP-10 ➔ On 15th February, the FGV released its IGP-10 ➔ +0.23% versus +0.79% in January. This was the lowest rate since August 2017 (-0.42%). The 12-month accumulation is now -0.42%.

IPCA-15 ➔ On 23rd February, IBGE released its IPCA-15 (a “preview” of the full IPCA) ➔ +0.38%, versus +0.39% in January. The 12-month accumulation of the IPCA-15 is now +2.86%.

5.2 – IBC-Br ➔ +1.04% in 2017

On 19th February, the Central Bank released data for its IBC-Br (Index of Economic Activity) that is considered a “Preview” of Brazil’s GDP. In December, the IBC-Br posted +1.41% MoM and +1.26% for the 4th Q/2017 versus 3rd Q/2017. Finally, the IBC-Br for 2017 was +1.04% versus 2016.

IBGE should announce Brazil’s GDP result for 2017 next week -- on 1st March.

5.3 – Fitch downgraded Brazil

As expected by most analysts, the risk-analysis agencies should begin another round of downgrades for Brazil in the coming weeks. On 23rd February, Fitch downgraded Brazil one notch ➔ “BB” ➔ “BB-” to three notches below “investment grade”.


5.4 – Auto Sector

Because of increased sales (including exports), Volvo has added a second shift to its truck factory with an additional 250 employees. Volvo expects a 25% increase in sales in 2018.