Brazil Focus –
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Weekly Report
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Looking Ahead ➔ What to watch for?

- 21st March - UNDP to release 2017 HDI-Human Development Index – Brazil ranked
- 20-21 March – Copom meeting ➔ Selic rate (another reduction??)
- 22nd March - IBGE to release the IPCA-15 ➔ +0.%, versus +0.% in February
- 24th March - MDB to celebrate its 52nd anniversary, MDB founded 24th March 1966
- 26th March - IBGE to release PNAD unemployment data for Nov-Dec-Jan ➔ %
- 26th March – Possible date for TRF-4 to issue arrest warrant for Lula
- 27th March - SRF ➔ February tax revenues R$ billion, % YoY
- 29th March - IBGE to announce retail sales in January ➔ MoM & % YoY
- 29th March - FGV to release March IGP-M ➔ +%
- 29th March - Public Account data for February
- 29th March - Central Bank to release IBC-Br for January ➔ % MoM & % YoY
- 30th March - Good Friday – National Holiday in Brazil
- 31st March -- Marks the 54th anniversary of the 1964 military coup
- 1st April -- Easter Sunday
1 - POLITICS

1.1 – City council member executed in Rio

On Wednesday evening, 14th March, Rio city councilwoman Marielle Franco (PSOL) – age 38 - and her driver - Anderson Pedro Gomes - were executed in a barrage of bullets in the center of Rio (Cidade Nova). One of her staff was also in the car but was only wounded by shattered glass. The assassin’s car pulled parallel to Franco’s vehicle and fired the bullets into Franco’s car.

The police hypothesize that this was an execution and that the assassins had trailed Marielle’s car for some 4 Km. Franco’s colleagues point to the fact that she had denounced criminal acts perpetrated by the PM-RJ. She identified the PM battalion that killed the largest number of people, calling it the “Death Squad Battalion”. In the 2016 municipal elections, she had the fifth largest vote total for the city council (46,502 votes).

She had a BA in Sociology (PUC-Rio) and an MA in Public Administration from UFF. Two weeks ago, she was chosen as president of the special committee monitoring the intervention by federal troops in the state of Rio. Her party, PSOL, recently filed an ADIn at the STF challenging the constitutionality of this intervention.


http://www.diariodopoder.com.br/

Chief Federal Prosecutor (PGR) Raquel Dodge called for the “federalization” of this case so that the Federal Police could assume (exclusively) this investigation – because public security/safety in
Rio is under federal intervention. The local civil police affirmed that they are in charge of this case. To this end, the PGR would have to file a petition at the STJ to put the Federal Police in charge. The autopsy revealed that 9 mm pistol or sub-machine gun had been used. These weapons are exclusive with Brazil’s police forces but are available on the black market.

Most probably, this execution was perpetrated by organized crime groups in Rio linked to the Policia Militar AND was aimed at the demoralization of the federal military (Army) intervention in Rio – with extensive national and international repercussions. The intervention commandant – Gen. Braga Neto – had just replaced the heads of the PM-RJ and of the Civil Police.

Last week, the DEM launched Chamber President Rodrigo Maia (RJ) as pre-candidate for President and this week he began a nation wide speaking tour. With the execution of Marielle Franco, Maia broke off his trip and returned to Brasília – BUT it took him 12 hours before he made any public statement regarding this horrific event. He presided over the Chamber session in homage of Marielle. Maia criticized the federal military intervention in Rio. The other pre-candidates made similar statements, BUT Dep. Jair Bolsonaro (PSL-RJ) has been conspicuously silent.

Using images from surveillance cameras along the route of Marielle’s car, the Rio Civil Police have already identified the license plate of the car used by the assassins – Nova Iguacu, RJ. The police also identified a third vehicle they think was involved in this execution. However, the license plate might have been “cloned” and or the case of a stolen car.

The civil police collected the 13 spent cartridges at the scene of this crime and the Federal Police identified this 9 mm ammunition as part of the supply for the Federal Police in Brasília. This ammunition was part of the same batch (UZZ-18 supplied by CBC-Brazilian Cartridge Company on 29th December 2006) that was also used by the PM-SP in the massacre of 17 prisoners in Osasco and Barueri on 13th August 2015. The civil police examination revealed that this ammunition was “original” and not re-charged.

1.1.1 – EU Deputy calls for break with Mercosur

On Thursday, 15th March, a member of the EU parliament, Miguel Urbán, of the Spanish Podemos party, called for the EU to break off its free trade agreement negotiations with Mercosur in lieu of the murder of Marielle Franco, city council member in Rio de Janeiro. Some 50 other EU deputies supported this proposal.


1.2 – STF “corrected” Pres. Temer’s Christmas pardon

Last year, Pres. Temer prepared a very broad Christmas pardon decree to release (free) certain prisoners. This “broad” pardon was challenged by the PGR and lawyers’ associations, and was temporarily suspended at the STF. Finally, STF Judge Luis Roberto Barroso issued an individual decision on 12th March ➜ 1) Veto pardons for those convicted of “white collar” crimes; and 2) Restore the condition of having served one-third of the sentence (instead of one-fifth). Barroso affirmed that
the inclusion of “white collar” crimes (corruption, money laundering, conspiracy, etc.) was a direct “stimulus” for the practice of these crimes AND put the whole Lava Jato investigation in jeopardy.


Apparently, Temer will appeal to the full Supreme Court regarding this ruling by Judge Barroso. **Want More??** On 13th March, the Secretary (Minister) for government relations, Dep. Carlos Marun (MDB-MS) affirmed that he would lead a movement to impeach STF Judge Barroso. Marun affirmed that he might even take a leave of absence from his cabinet post to return to the Chamber to mobilize this “movement”. As might be expected, this provoked the wrath of the OAB (Brazilian Bar Assoc.) and associations of judges.

**1.3 – Guido Mantega**

On 12th March, Federal Judge Vallisney Oliveira (10th federal circuit in Brasília) accepted the case of corruption via CARF and opened a formal investigation of former Finance Minister Guido Mantega and 13 other persons involved in the Zelotes investigation. This group is accused of favoring the Cimento Penha firm to eliminate the accusation of tax evasion (R$ 57.7 million).

**1.4 – Decree regarding Santos port**

Last week, STF Judge Luis Roberto Barroso ordered the breaking open of Pres. Temer’s bank accounts for the investigation that a Temer decree in 2017 favored a certain operator in the Santos port in return for bribes. On 12th March, Barroso ordered the opening of secrecy of bank accounts and telephone calls for one of Temer’s former advisors, Rocha Loures, and one of Temer’s long time friends, confidant and financial operator, retired PM-SP colonel, João Batista Lima.

Last week, the Federal Police carried out a search-and-seize operation at the Planalto Palace (president’s office building) in the office of Rodrigo Rocha Loures who had been a “special assistant” to Pres. Temer and is nicknamed “o homem da mala” (the man with the suitcase) when he was video taped by the Federal Police in SP as he hastily left a piazza place with a roller suitcase containing R$ 500,000,00 that had been delivered to him by Joesley Batista. Allegedly, these funds were part of a bribe payment for Pres. Temer after he signed the decree favoring Rodrimar in the Santos Port.

**1.5 – Paulo Maluf**

By the “ironies” of Brazil’s political system, by order of the STF, Dep. Paulo Maluf (PP-SP) was arrested in December and jailed in the Papuda prison in Brasília, **BUT** is still legally a federal deputy because the STF can send a deputy to prison but can’t remove his/her mandate. The Chamber of Deputies has begun deliberations to this end for Maluf and 4 other imprisoned deputies.

**However,** on 14th March, the TJ-SP (São Paulo state supreme court) ordered all the shares held by Maluf in his diverse firms in SP “frozen” in lieu of R$ 21.3 million in public funds that he “ripped off” in 1994-1995 (when he was Mayor of SP).

**1.6 – Lava Jato**
Friday, 16th March, marked the fourth anniversary of the *Lava Jato* investigation. PGR Raquel Dodge traveled to Curitiba to participate in the celebration of this date.


1.6.1 – Pasadena Refinery

On 14th March, Federal Judge Sérgio Moro accepted the accusation against former Senator Delcídio do Amaral and another ten persons regarding the acquisition of the Pasadena, Texas refinery that was greatly overpriced. Former President Dilma Rousseff and former Finance Minister Antonio Palocci were also involved. Reportedly, Amaral received a “cut” of US$ 1 million.

1.6.2 – Sen. Romero Jucá

On 13th March, the STF accepted an accusation against Sen. Romero Jucá (MDB-RR) regarding R$ 150,000,00 that he received in 2014 from Odebrecht in return for promotion of two measures that this construction firm wanted approved. Jucá claims that this was a legal campaign donation to the campaign of his son running for Vice-Governor that year. This is first formal accusation against Jucá that the STF has accepted in a penal investigation.

Sen. Jucá is the current MDB national President and the government floor leader in the Senate.

1.6.3 – Dep. André Moura

On 15th March, STF Judge Rosa Weber accepted the request from the PGR to install a corruption investigation against Dep. André Moura (PSC-SE) regarding vote-buying in Sergipe in the 2014 elections. He is the current floor leader for the Temer government.

1.6.4 – Operation Pão Nosso

On 13th March, the Federal Police in Rio carried out *Operation Pão Nosso* [our daily bread] with warrants issued by Federal Judge Marcelo Bretas. This operation accused several officials associated with former Governor Sérgio Cabral of corruption involving skimming off funds from bread and other items including in the breakfast and other meals served to prisoners in the state of Rio. The amount skimmed off was R$ 55 million.

1.6.5 – JBS versus BNDES

Brazil’s TCU (Federal Accounting Court) concluded that the manipulation of the Brazilian stock market Bovespa (via insider information) caused a R$ 5 billion loss by BNDES that had loaned
funds to JBS (Batista brothers) in the form of JBS shares. The Batista brothers sold off large quantities of their shares several days BEFORE the news of the tape recorded conversation between Pres. Temer and Joesley Batista became public. As a result, the JBS shares declined by some 35% -- thus the loss incurred by the BNDES. However, BNDES denied this allegation, saying that the development bank actually “profited” from this operation. The CVM (stock market watchdog) is investigating this episode that produced losses by other investors holding JBS shares.

1.7 – Presidential campaign

In March, several political parties have launched their “pre-candidates” for President. However, the party candidates will become “official” only after they have been nominated in national party conventions to be held between 20\textsuperscript{th} July and 5\textsuperscript{th} August.

The candidates who have been “launched” so far are Luiz Inácio Lula da Silva (PT), Ciro Gomes (PDT), Rodrigo Maia (DEM) and Jair Bolsonaro (PSL). However, the PT governor of Bahia, Rui Costa has praised the pre-candidacy of Ciro Gomes (PDT) and proposed that the PT should decide not to launch its own presidential candidate.

Any “outsider” who wants to run for office in 2018 has a deadline of 7\textsuperscript{th} April to join a political party. Business leader Flávio Rocha (owner of the Lojas Riachuelo chain stores) has increased his comments regarding Brazilian politics recently. Many think that he might become a Presidential candidate – possibly via the PRB.

1.7.1 – João Vicente Goulart

On 13\textsuperscript{th} March, the PPL-Partido da Pátria Livre launched the son of former President João Goulart – João Vicente Goulart – as its presidential candidate. João Goulart [\textit{Jango}] was elected Vice-President (PTB) – in 1955 with Juscelino Kubitschek (PSD) and in 1960 with Jânio Quadros (UDN). When Jânio Quadros abruptly resigned in August 1961, Jango became president – but with reduced presidential powers under a parliamentary system that had been hastily installed. In January 1962, a national plebiscite restored Goulart’s full presidential powers but was deposed by a military coup in March 1964 and went into exile in Uruguay and later in Argentina. He died in 1976, allegedly because Argentine secret agents replaced his heart medication with some sort of poison.

João Vicente had been a member of the PDT (founded by his uncle Leonel Brizola in 1980) but joined the PPL last year because he had a falling out with the PDT national president Carlos Lupi. Reportedly, the PPL has chosen Prof. Léo Alves (Catholic University in Brasília) as João Vicente’s running mate.

João Vicente authored a book \textit{“Jango e eu: Memórias de um exílio sem volta”} (Civilização Brasileira). When Jango went into exile in 1964, João Vicente was 7 years old. He was elected to the Rio Grande do Sul state legislature (AL-RS) in 1982.
1.8 – Cabinet Reform

The “deadline” for cabinet ministers who want to stand for elections in 2018 to “step down” (resign) is 7th April. Reportedly, some 11 or 12 cabinet ministers will “step down” and Pres. Temer will have to appoint replacements to serve until 31st December 2018.

The press has begun to list some of the possible replacements AND also list the accusations against them in Brazil’s courts. On Friday, 16th March, the OSEP listed six possible replacements and the accusations against them:

Health – João Leão (PP-BA) – the current Vice-Governor of Bahia is accused corruption in a scheme for acquisition of airplane tickets. This case is being deliberated at the TRF-1.

Tourism – Teté Bezerra (MDB-MT), the wife of Dep. Carlos Bezerra (MDB-MT) – accused of participating in a corruption scheme with her husband in MT. This case is being deliberated at the TRF-1.

Sports – Fernando Avelino (MDB-RJ) – accused of corruption when he was at Cedae and Detran in Rio. This case is being deliberated at the TJ-RJ.

Communications – Elton Santa Fé – Accused of corruption at the Mayor’s office in SP and taking bribes from Odebrecht. This case is being deliberated at the TJ-SP.

Education – Maria Helena G. Castro (PSDB-SP) – She is accused of corruption when she was SP State Secretary of Social Assistance. This case is being deliberated at the TJ-SP.

Labor – Helton Yomura (PTB-SP). He is accused of 22 labor law violations while he worked at Firmatec in SP. This case is being deliberated at the TRT-SP.

See ➔ http://politica.estadao.com.br/noticias/geral,indicados-para-o-ministerio-de-temer-sao-alvo-de-aocos,70002229292

2 – FOREIGN RELATIONS & TRADE

2.1 – Brazilian steel ➔ USA???

Brazil and the US have a “special relationship” in the steel sector. Nearly all the Brazilian steel exported to the US is of the “semi-finished” type. This product is then finished off by US steel processing firms for use in several manufacturing firms. If the Trump 25% tariff is applied to these Brazilian products, many of the US steel processing firms might have to close and dismiss their workers. On the other hand, most Brazilian steel makers import hard coal from the US.

In its Sunday (11th March) edition, the O Estado de São Paulo published an interview with Marcelo Botello Rodrigues, CEO of California Steel. He affirmed that if the 25% tariff is applied to Brazilian steel products, his firm would have to close and dismiss all of its 1,000 workers.
According to this OESP article, if this tariff on Brazilian semi-finished steel goes into effect, this might cost some 146,000 jobs at plants that turn this steel into finished steel products for US industries.

Want more? The US now suspects that China ➔ Brazil “triangulation” is operating – whereby Brazil “re-exports” Chinese steel to the US. This “concern” was voiced by US Secretary of Commerce, Will Ross, during the recent visit of MDIC Minister Marcos Jorge to Washington. In March 2016, the US applied an anti-dumping tariff on Brazilian iron and steel products exported with prices below the costs of production. At that time, the US also investigated possible Chinese triangulation but this was not substantiated.

2.2.1 – Brazil’s options

Brazil has several options to negotiate exemptions from extra tariffs o its steel and aluminum: 1) Brazil could decide to import coal (for steel making) from another source (not the US); 2) Brazil could open its market (without quotas) for US exports of ethanol and wheat; 3) Brazil has not yet approved the bilateral “open skies” agreement with the US that would remove limits on the number of flights from the US to Brazil and vice-versa; 4) The possible agreement/partnership/merger between Boeing and Embraer is still “up in the air”; and/or 5) Form a block of countries affected by these tariffs to file a complaint at the WTO.

2.2 – Trump vetoed sale of Qualcomm

Qualcomm is a large manufacturer of micro components for cell phones and other products, located in San Diego, CA and had been negotiating acquisition by Singapore-based Broadcom, reportedly for US$ 117 billion. However, on 12th March, Pres. Trump issued a decree prohibiting this acquisition, in the name of “national security”.

2.3 – PGR favors extradition of Cesare Battisti

In a brief transmitted to the STF on Monday 12th March, PGR Raquel Dodge affirmed that Pres. Temer can extradite Italian terrorist Cesare Battisti. He was accused of murdering four persons and convicted to life imprisonment without parole. However, he escaped to France in 2004 and later to Brazil where he was arrested in 2007 and the STF authorized his extradition back to Italy in 2009. But following the recommendation of then Justice Minister Tarso Genro, Lula denied this extradition on his last day in office (31st December 2010).

Battisi’s lawyers affirm that Lula’s presidential decree can not the revoked, but in her brief, Raquel Dodge affirmed that because the STF has already authorized the extradition, that the final extradition order is the exclusive prerogative of the President and Temer has the power to revoke Lula’s decree and order Battisti’s extradition to Italy. In an attempt to avoid extradition, Battisti
married a Brazilian woman who quickly gave birth to his son (a Brazilian citizen). These facts preclude his extradition, according to his lawyers.

⇒ Stay tuned!!

2.4 – Another “bumper” harvest??

There are indications that the 2018/2019 grain harvest might somewhat less (volume) than in 2017/2018, but the income (profits) might be larger – because the prices should be higher than in the 2017/2018 harvest. Reasons? Apparently, the grain harvest in Argentina will be reduced because of drought. Also, the grain harvest in the US might be less. In Brazil, the corn harvest should be a bit less, thus pushing the prices up. ⇒ Stay Tuned!!!

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – Fibria & Suzano merge ⇒ Cellulose Giant

On 15th March, Fibria and Suzano reached an agreement to merge and form a cellulose giant in Brazil in lieu of approval by Cade (Brazil’s anti-trust agency). Suzano won out over the Netherlands-based Paper Excellence BV. The controlling shareholders of Fibria (Votorantim and BNDESPAR agreed to a cash-and-share offer from Suzano of R$ 35 billion.

As a result, Suzano’s shares on Bovespa were up by 24% and those of Fibria were by 9.5%.

5 - ECONOMICS

5.1 – Retail Sales up in January

On 13th March, IBGE released the retail sales data for January ⇒ +0.9% MoM and +3.2% YoY. IBGE explained that the levels of income have increased and impacted on retail sales in January. In December 2017, retail sales contracted by -0.9% MoM.

5.2 – Siemens to invest one billion euros

On 14th March, the German group Siemens signed a preliminary agreement with Apex in SP to invest one billion euros over the next five years – in the electric sector, transportation, public infrastructure and heath. Siemens expects that this investment will attract another 50 billion euros for investments that should create 1.2 million new jobs.