Brazil Focus –  
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Weekly Report  
Mar. 17-23 2018  

Looking Ahead ➔ What to watch for?  

- **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** – TRF-4 to finalize appeals by Lula’s lawyers  
- **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  
- **30th March** - Good Friday – National Holiday in Brazil  
- **31st March** -- Marks the 54th anniversary of the 1964 military coup  
- **1st April** -- Easter Sunday  
- **1st April** -- Costa Rica – 2nd round runoff presidential election  
- **2nd April** -- Easter Monday – Holiday in Canada  
- **2nd April** -- Trade Surplus for March ➔ US$ billion & US$ billion in 1st Q/2018  
- **3rd April** -- IBPT ➔ 2017 tax burden ➔ % of GDP  
- **3rd April** -- Fenabrave ➔ March auto sales, units (% YoY & % MoM)
• 4th April -- IBGE to announce February Industrial Production, % MoM & % YoY
• 4th April -- Social Security deficit -R$ billion in February
• 6th April -- Savings Accounts data in 1st Q/2019
• 9th April -- FGV to post IGP-DI for March ➔ +0.%
• 9th April -- IBGE to release March IPCA ➔ +0.% versus +0.% in February

1 - POLITICS

1.1 – Sen. Kátia Abreu

Tocantins Senator Kátia Abreu was elected to the Senate by the PFL➔DEM in 2006, but switched to the PMDB to become Minister of Agriculture under Pres. Dilma Rousseff (they became close friends). She was reelected Senator in 2014 and also became the first woman elected as President of the CAN-National Confederation of Agriculture. In November 2017, she was expelled from the PMDB. Because she plans to run for Governor of Tocantins, on 16th March she joined the PDT. Her son, Irajá Abreu is a federal deputy (PSD) from Tocantins and this party should join her coalition. It is possible that the PT-TO might also join this coalition. Remember: Dilma Rousseff was a member of the PDT-RS until 2001 when she switched to the PT.

1.2 – Foro Previlegiado?

The STF had advanced its deliberations to end the Foro Previlegiado whereby “authorities” (Deputies, Senators and Cabinet Ministers can only be tried by the Supreme Court). Because the STF is not a “penal court” such “trials” and convictions take a very long time. When the STF had a majority (8 out of 11) in favor of ending this artifice, Judge Dias Toffoli requested vistas (to study this case further, so the deliberations were interrupted. Now, it seems that Toffoli will bring the case back for deliberation. If the STF completes this deliberation and ends this artifice, ALL the politicians “covered” by this artifice will be thrown to the mercy of first level federal judges – a real nightmare!!

The Folha de São Paulo counted 40 politicians who would be affected (but there might be more) ➔ Pres. Temer plus cabinet ministers Eliseu Padilha and Moreira Franco, 13 senators and 24 federal deputies.


1.3 - PSDB

The past weekend was important for the PSDN.
João Doria was selected as the PSDB candidate for Governor of SP by an overwhelming primary vote on Sunday., 18th March. He received 11,993 votes (80.02%) and apparently will be the tucano for Governor in the October elections. However – this overwhelming primary vote put Doria in a good position to replace Gov. Geraldo Alckmin as the party’s presidential candidate if Alckmin “falters” in his campaign. Both will step down (resign) before the 7th April deadline.

Antonio Anastasia had been quite reluctant to running for Governor of Minas Gerais in the October elections. The Senator, elected in 2014, has a mandate that runs through January 2023. But he succumbed to pressures to strengthen the party’s presidential ticket and enhance the chances of Sen. Aécio Neves reelection bid. He made this announcement on Saturday, 17th March. Anastasia had been Vice-Governor with Neves and replaced him as governor (2011-2014).

Aécio Neves was elected Senator in 2010 after serving two terms as Governor of Minas Gerais and was narrowly defeated by Pres. Dilma Rousseff in the 2014 presidential election. Thus, his Senate term expires now in 2018. However, his political ambitions have been severely “tarnished” by accusations of corruption and the fact that the STF suspended his mandate and ordered the end of his mandate ( cassação ) – but a Senate vote maintained his mandate. There are indications that Neves might not run for any office in 2018.

PSDB-DEM alliance ➔ Traditional allies in most of Brazil’s recent elections, apparently the PSDB will run Geraldo Alckmin for President and the DEM already launched Chamber President Rodrigo Maia (RJ) as its pre-candidate for President. Also, these two parties will launch separate (competing) candidates for Governor in at least five states.

1.4 – Lava Jato

On 19th March, Judge Sérgio Moro ordered the arrest/imprisonment of Gerson de Mello Almada, former Vice President of Engevix (one of the 20 construction firms in the Petrobras cartel. In 2015, he had been convicted and sentenced to 19 years in prison by Judge Moro. In 2017, the TRF-4 confirmed this conviction and increased Almada’s prison term to 34 years. With all the appeals exhausted, Judge Moro decided that after the confirmation by a second level court, Almada could begin serving his sentence. Almada presented himself to the Federal Police in Curitiba on 20th March and began serving his sentence.

1.4.1 - Petrobras, Bribe in Pasadena acquisition

On 23rd March, the Federal Police denounced the acquisition of the Pasadena Refinery in 2005 for US$ 1.179 billion that allegedly involved a bribe of US$ 15 million that was divided among Dilma Rousseff (then Minister of Mines and Energy), Antonio Palocci (then Finance Minister) and Sérgio Gabrielli (then President of Petrobras). The Federal Police suggested that the investigation break open the bank and fiscal secrecy of the three accused to substantiate this bribe.

1.5 – Goiás arrested corrupt bishop

On 19th March, the civil police in Goiás arrested Roman Catholic bishop José Ronaldo Ribeiro in Formosa, GO, a monsignor and four priests plus 3 other persons – Operation Caifás. [Joseph
Calaphas was the high priest who delivered Jesus to Pontes Pilatos. Goiás prosecutors accused this group of embezzling some R$ 2 million of church funds -- collections (tithes), donations and church events (weddings, baptisms, etc.) in Formosa, Posse and Planaltina. Goiás prosecutors began investigating this case after some parishioners complained about suspected misuse of Church funds. Thirteen arrest warrants and 10 search-and-seize warrants were issued. These funds had been converted into a large cattle farm, a lottery station (acquired for R$ 450,000,00), and several luxury automobiles. Also, the police found R$ 70,000,00 plus US$ in a false bottom of a closet in the home of Monsignor Epitácio Pereira.

On 21st March, Pope Francis appointed the archbishop of Uberaba, MG – Paulo Mendes Peixoto as the new administrator of the Formosa, GO diocese.

1.6 – Lula approaches his “D-Day”

1.6.1 – Lula Caravan campaign in Rio Grande do Sul

Under the threat of arrest within the next ten days, Lula embarked on a campaign swing in the South, beginning in Rio Grande do Sul on 19th March in Bagé, RS. Lula counted on the presence of former governor and Justice Minister, Tarso Genro, former President Dilma Rousseff and former Uruguayan President, José Mujica. It was not easy, because the anti-Lula confrontation was numerous and well organized – by ruralistas and supporters of pre-candidate Jair Bolsonaro (PSL). The event was held at the Federal University of the Pampas and Lula only had about 8 minutes to speak.

The southern region has demonstrated the smallest level of support for Lula’s 2018 candidacy. The most recent Datafolha poll showed that the South only 23% of those interviewed said they would vote for Lula versus 41% in the North and 56% in the Northeast.

The confrontation continued on Tuesday, 20th March in Santa Maria where the MBL-Movimento Brasil Livre joined in the anti-Lula protest/confrontation versus students who supported Lula.


https://www.noticiasagricolas.com.br/noticias/politica-economia/210146-rs-se-levanta-contra-a-impunidade-de-lula-em-protesto-com-mais-de-mil-produtores-em-bage.html#.WrFrj66nH1c

Lula moved on to São Borja, birthplace of Getúlio Vargas and João Goulart (Jango). João Vicente Goulart (Jango’s son and pre-candidate for President with the PPL) commented (critically) this move by the PT. He said that the PT had always been critical of Vargas and Jango and is now “revising” its position in São Borja.
Lula’s caravan will be in Foz do Iguaçu, Paraná on Monday, 26th March – the probable day that his arrest warrant will be issued after the TRF-4 has exhausted all of his lawyers’ appeals. **Detail:** Foz do Iguaçu is on the border with Argentina – so if the Federal Police don’t monitor Lula’s activities, he might just slip over the border to avoid his arrest.

### 1.6.2 – D-Day on 26th March?

STF President Cármen Lúcia had been trying to keep the question of the accused who were convicted at a second level court beginning to serve their sentence in lieu of appeals to higher courts off the agenda at the Supreme Court. This 6-to-5 decision was made by the STF in 2016. However, on 21st March Judge Marco Aurélio Mello announced that he would request a “point of order” that would oblige the high court to revisit this decision. **IF** the STF reverses this decision, **ALL** those convicted via the *Lava Jato* investigation would be immediately released from prison ➔ Former governor Sérgio Cabral, former Finance Minister Antonio Palocci, former Chamber President Eduardo Cunha, etc. – as well as many other “common” criminals whose convictions were maintained by the TRFs.

STF President Cármen Lúcia pulled off sort of a “hat trick” that convinced Judge Marco Aurélio Mello not to raise his “point of order”. She determined that the full STF would consider the preventative *habeas corpus* filed by Lula’s lawyers in an attempt to avoid his being arrested on 26th March. Apparently, she believed that this HC would be denied. **However,** the basic question regarding imprisonment after a TRF conviction would be deliberated **after** the Easter holiday in early April. At that point, if it looks like a 6-to-5 majority would abolish this important anti-corruption measure, for sure one of the judges in favor of maintaining this will **“pedir vistas”** – request to study the matter further, thus postponing a final decision for an indefinite period.

**STF Postponed decision** ➔ On 22nd, March the STF deliberated the a preventative *Habeas Corpus* for Lula requested by his lawyers. **However,** when a majority had voted against this request, Judge Marco Aurélio Mello requested **vistas** to study the question further – because he had to catch a flight at 19:40 for an event in SP. **BUT** six of the STF judges voted to accept the *Habeas Corpus* request temporarily until the deliberations are resumed on 4th April after the Easter recess (next week – if Judge Mello returns the case for deliberation.

**Thus,** when the TRF-4 finishes denying the final appeals by Lula’s lawyers on 26th March, Lula will not be arrested on this “D-Day”.

➔ **Stay tuned!!!**

### 1.7 – Outsiders as candidates in 2018 elections

In 2018, many political parties are recruiting *outsiders* as candidates, especially for senator ➔ persons who are not politicians, have never run for office and who are famous (notables) in their respective areas. One of the most “notable” – *TV Globo* star Luciano Huck is a good example. Before
he “took his hat out of the ring” his possible candidacy for President was well rated in the opinion polls.

Ronaldinho Gaúcho – a famous Brazilian soccer star formally joined the PRB in Brasília on 20th March, and probably will run for Senator. Ronaldinho began his career with Grêmio, and then later with Flamengo, Atlético Mineiro, Fluminense. The PRB is linked to the Universal Church of the Kingdom of God (IURD).

Thereza Collor – The widow of Pedro Collor de Mello, she moved to São Paulo some 20 years ago and married Gustavo Halbreich (civil construction)) and recently transferred her voting residence from Alagoas to SP. Reportedly, she plans to run for federal deputy from SP but has yet to choose a political party. She has been conversing with Eduardo Jorge (PV) as a possibility.

1.8 – Pope Francis conversed with Marielle Franco’s mother

On 21st March, Pope Francis tried to contact the daughter of councilwoman Marielle Franco, Luyara – after he received a letter from her. However, he was able to offer his condolences to Marielle’s mother via a telephone call


1.9 – TSE removed Tocantins Governor & Vice-Governor

On 22nd March, the TSE on a 5-to-2 decision decided to remove Governor Marcelo Miranda (MDB) and Vice-Governor Cláudia Lélis (PV) because of vote buying during their election in 2014. Miranda was elected Governor in 2006 and was removed in 2009 for the same reasons. Apparently, new direct elections will be called (soon) to elect a governor for the remainder of Miranda’s term (through 31st December 2018).

2 – FOREIGN RELATIONS & TRADE

2.1 – Manoel Santos ➔ Brasília

On Tuesday, 20th March, Colombian President Manoel Santos visited Brasília. Santos invited Pres. Temer to participate in the next summit of Pacific Alliance (Mexico, Chile, Peru and Colombia) that will meet in Mexico. Costa Rica and Panama have applied to join this Alliance. Brazil is not even listed as an “observer”. Santos and Temer discussed a possible request for the IMF to appropriate special funds to help sustain Venezuelan refugees in Colombia and Brazil.

2.2 – Venezuela reneged BNDES debt

Venezuela owes R$ 3.15 billion in loans issued by BNDES during the Lula and Dilma governments. A payment of R$ 901 million due in January 2018 was not paid and is considered
“delinquent”. This loan was for infrastructure projects 90% of which were executed by Lava Jato construction firms.

2.3 – Peruvian President resigned

On 21\textsuperscript{st} March, Peruvian President PKK-Pedro Paulo Kuczynski, age 79, announced his resignation – the day before a second impeachment vote was scheduled for 22\textsuperscript{nd} March. A second impeachment attempt had been installed in the Peruvian Congress. In the first attempt, PKK was accused of taking bribes from Odebrecht regarding the Brazilian firms public works in Peru – but with the “help” from Kenji Fujimori, the son former President Alberto Fujimori, the impeachment motion was defeated. Now, with the second round underway, videos appeared where Kenji was negotiating votes of deputies in favor of PPK in return for certain “compensation”.

However, Opposition deputies stated that Congress could reject PPK’s resignation and go ahead with the impeachment vote.

If the resignation or impeachment is confirmed, the First Vice-President, Martin Vizcarra, who is the current Peruvian ambassador to Canada, would become President of Peru. He did not get involved in this fracas – but boarded a flight from Ottawa to Lima the night of 21\textsuperscript{st} March.

In since 2000, ten other Latin American Presidents were forced to resign, impeached or expelled from their respective country:

- **Dilma Rousseff** – Impeached by the Brazilian Congress in August 2016
- **Fernando Lugo** – Impeached by the Paraguayan Congress in June 2012
- **Manuel Zelaya** – Expelled from Honduras by the military in June 2009
- **Carlos Mesa** – Resigned as President of Bolivia in June 2009
- **Lúcia Gutierrez** – Removed by congress in Ecuador in April 2005
- **Gonzalo Sanches de Lozada** – Resigned as President of Bolivia in October 2002
- **Adolfo Rodriguez Sá** – Resigned as President of Argentina in December 2001
- **Alberto Fujimori** – Fled from Peru to Japan and resigned in November 2000
- **Fernando de la Rua** – Resigned as President of Argentina in December 2001
- **Jamil Mahuad** – President of Ecuador removed by a military coup in January 2000

2.4 – Pres. Trump exempted Brazil

On 23\textsuperscript{rd} March, Pres. Trump signed an exemption for Brazil regarding his new tariff on steel imports – through 1\textsuperscript{st} May 2018. However, quotas might be imposed after this date/

3 – REFORMS

3.1 – Central Bank wants veto power

The Central Bank is pressuring Congress to give it veto power over appointments of presidents, vice-presidents and directors of “public banks → Banco do Brasil, Caixa Econômica Federal, Banco do
Nordeste and Banco da Amazônia. **The Problem:** Because these appointments are made via names indicated by political parties, the latter extract considerable *mas valia* from this process, *i.e.*, too much corruption and waste.


3.2 – Petrobras to sell fertilizer plants (BA & SE)

On 20th March, Petrobras deactivated two Fafena fertilizer plants in Bahia and Sergipe in preparation for their sale to the private sector. In 2017, Petrobras has R$ 800 million losses from these two units.

4 – PRIVATIZATION & REGULATION

4.1 – Chinese investments

The President of CCCC-China Communications Construction Company arrived in Brazil this week to lay the cornerstone of the Porto São Luís – the new private port terminal in the capital city of the state of Maranhão. CCCC holds a 51% share in this venture. CCCC President Chang Yunbo affirmed that his firm is also interested in the railway concession auctions in 2018 – Ferrogrão (MT/PA), Norte-Sul (Porto Nacional/TO to Estrela D’Oeste-SP), as well as the Malha Sul (Rumo Logística).

The first phase of the São Luís Port (TUP-Terminal de Uso Privado) should be completed in 4 years and is estimated at R$ 800 million with a total of R$ 2 billion. The Brazilian partners in this project are ➔ WPR (24%), Lyon Capital (20%), and minorities (5%). When the total capacity of this port is completed, the capacity will be 15 million tons (7 million in grains).

Maranhão’s public port (Itaquí) handled 19.1 million tons in 2017. In 2017, 79% of Brazil’s soy exports went to China, according to MDIC data. China wants to assure that these exports will be able to increase in coming years.

4.2 – Rotterdam ➔ Brazil

The port of Rotterdam handles 467.4 million tons of cargo per year – the largest port in the world. By contrast, Brazil’s largest port, Santos, handles 130 million tons per year. In 2014, the Rotterdam port began a joint venture with the Brazilian group TPK Logística (controlled by Polimix) to construct the Porto Central in Espírito Santo. Last week, the environmental authorization was granted and construction of this new port will begin soon. The first phase will involve R$ 3 billion.

In addition, Rotterdam port might acquire the administration of the Pecém port in Ceará, a private use terminal owned by the state of Ceará that is already in operation.
4.3 – Boeing & Embraer

According to press reports this week, Boeing and Embraer are finalizing the “details” for the model to be used in the union, partnership, merger, etc. Reportedly, a decision will appear next week – depending on authorizations from FAB, the Ministry of Defense and the Temer government.

5 – ECONOMICS

5.1 – March Inflation

On 16th March, the FGV released its IGP-10 ➔ +0.45%, up from +0.23% posted in February. The IGP-10 accumulates +1.48% in 2018 and -0.02% for the 12-month period. Increased prices for soy and minerals were responsible for the February ➔ March increase in the IGP-10. Remember: The IGP is used to index rents in Brazil.

5.2 – IBC-Br declined in January

The Central Bank released its IBC-Br (Index of Economic Activity) for January on 19th March ➔ -0.56% MoM. This result was better that the -0.80% average prediction by economists surveyed by Reuters. The IBC-Br for December was very positive ➔ +1.16% (later revised to +1.42% by the Central Bank.

Different sectors had diverse results in January ➔ the industrial sector retracted by -2.4%, bit retail sales were up by +0.9%. The 12-month accumulation of the IBC-Br is now +1.2%. The Central Bank’s weekly survey – Focus – reported projections for Brazil GDP of +2.8% in 2018 and +3.0% in 2019.

5.2.1 – FGV ➔ growth Nov-Jan quarter

On 21st March, the FGV released data showing that Brazil’s economy grew by +0.9% QonQ and 2.2% YoY in the three-month period from November through January. As in 1st Q/2017, the agriculture sector was again the top performer in this FGV survey ➔ +8.2%.

5.3 - Copom

Copom met on 20-21 March and decided to reduce the basic Selic interest rate by another 25 bps, 6.75% ➔ 6.50%. In its communiqué, Copom indicated that it might further reduce the Selic rate at its next meeting in May (if the IPCA official inflation rate continues “low”.

5.3.1 – Fed raised basic interest rate

Also on 21st March, the Federal Reserve governors met in Washington and increased the basic interest rate by 25 bps, 1.50% ➔ 1.75%. The Fed indicated that it probably will affect two more increased in 2018.
5.4 – Services sector declined

On 16th March, IBGE announced that the services sector had declined by -1.9% MoM in January, after expansion in November and December. Thus, the services sector does not show the clear tendency of expansion seen in the industrial and retail sales sectors.

5.5 – Federal Revenues in February

On 23rd March, the SRF released data for federal revenue collection in February ➔ R$ 105.122 (+10.67% YoY). In January, revenues were up +10.12% YoY. Thus, the 12-month accumulation is now +2.28% YoY. The revenues from Refis and the increase of PIS/Confins on fuels contributed to this February result.

5.6 – Caged – 61,000 new jobs created in February

On 23rd March, the Ministry of Labor announced its Caged data for February ➔ 61,188 new jobs were created. This was the second consecutive month with positive results – 143,186 new jobs created in 2018. The 12-month accumulation is now 102,494 new jobs created, +0.27% compared to the previous period.