Brazil Focus –

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Weekly Report
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Looking Ahead ➔ What to watch for?

- 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 -- STF final decision regarding Lula’s request for *habeas corpus*
- 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
- 12th April -- FGV to post IGP-10 ➔ % versus % in March
1 - POLITICS

1.1 – Pre-Candidates launched

Although the political parties can only officially nominate their candidates in state and national conventions in July, in March, several parties have announced (launched) their pre-candidates for President and Governor.

**Presidential** – On 27th March, Finance Minister Henrique Meirelles announced that he would join the MDB on 3rd April in his quest to become a presidential candidate. Also, on 27th March, BNDES President Paulo Rabello de Castro resigned his post, and hopes to become the pre-candidate for President via the PSC. On 27th March, the owner of the large retail store chain Lojas Riachuelo, Flávio Rocha (age 60), joined the PRB and probably will be launched as that party’s pre-candidate for President – with support from the MBL. This was decided with PRB federal deputies and PRB national president Marcos Pereira (former MDIC) and a bishop on leave from the Universal Church of the Kingdom of God (IURD). Flávio Rocha helped finance the film “Nada a Perder” based on the life and activities the founder of the IURD, Bishop Edir Macedo. The same day that Rocha was launched by the PRB, another pre-candidate Chamber President Rodrigo Maia (DEM-RJ) went to the movies to see “Nada a Perder”. On Good Friday, 30th March, it was reported that former STF President, Judge Joaquim Barbosa (age 63) will join the PSB on 7th April to become its pre-candidate for President.

**São Paulo** – The PSDB held a primary for Governor that gave João Dória, current Mayor of SP, some 80% of the vote. On 24th March, the PT held a state party convention and the President of the PT-SP, Luiz Marinho (former Mayor of São Bernardo do Campo), defeated the current Mayor of Guarulhos, Elói Pictâ, with 70% pf the vote. Current PT city council member, Eduardo Suplicy, was chosen as a PT candidate for the Senate and Jilmar Tatto was chosen as the party’s candidate for the second senate seat. Mário Covas Neto left the PSDB on 1st March and joined Podemos and will be a candidate for the Senate from SP.

**Goiás** – On 27th March, STF Judge Dias Toffoli issued an injunction that will allow former Senator Demônstenes Torres (PTB-GO) to be a candidate for Senator in 2018. He joined the PTB on 17th February 2018. Previously, he was a DEM senator from Goiás but was expelled from the Senate (cassado) in July 2012 by a 56-to-12 vote. He was accused by the Federal Police of using his office to benefit Carlinhos Cachoeira, the head of an organized crime group (casino c=gambling and the numbers racket. However, Dias Toffoli denied Torres’ request that he be able to reassume his Senate.
mandate. Because of the Senate decision, in theory, Torres was ineligible to run for office until 2027, but the STF annulled the evidence gathered by the Federal Police and Torres was reinstated as a public prosecutor in Goiás – the position he had occupied before being elected to the Senate. His election chances in 2018 are at the least uncertain.

### 1.2 – Cabinet Ministers resign

All cabinet ministers (and others who occupy executive branch positions) are required to “step down” (resign) before 7th April (6 months before the October 7th elections. As seen above, BNDES President Paulo Rabello de Castro resigned on 27th March, and Finance Minister Henrique Meirelles will resign on 3rd April. On 29th March, Pres. Temer chose number two at Finance, Eduardo Guardia to succeed Meirelles. Reportedly, Ricardo Ramos, BNDES director for capital markets, will temporarily replace Rabello de Castro. Eleven of Temer’s cabinet ministers will “step down”.

On 27th March, Health Minister Ricardo Barros (PP-PR) announced that he will resign and will reassume his mandate as federal deputy. He will seek reelection as deputy and help his wife Cida Borghetti in her election campaign for governor of Paraná. Pres. Temer held negotiations with the national president of the PP, Sen. Ciro Nogueira (PP-PI), regarding Barros’ replacement. Reportedly, this will be Gilberto Occhi, the current President of the CEF. The main problem is who will replace Occhi at the CEF. On 28th March, Education Minister Mendonça Filho (DEM-PE) announced that he would step down on 5th April and return to his seat as federal deputy. He has not decided which office he will run for in the October elections. On 29th March, Mauricio Quintella (PR-AL) delivered his letter of resignation as Transportation Minister. In conversations with the PR, Pres. Temer agreed to appoint Casimiro Silveira, the current head of DNIT, to replace Silveira on 5th April.

### 1.3 – Lula and Bolsonaro in Curitiba

On Wednesday, 28th April, Lula and Jair Bolsonaro (PSL) took their pre-campaigns to Curitiba, PR. Bolsonaro arrived at the airport at 11:30 a.m., and Lula in the afternoon for a rally at 5:00 p.m. at the Praça Santos Andrade.

### 1.4 – TRF-4 maintained Lula’s conviction

On 16th March, the TRF-4 in Porto Alegre rejected ALL of the appeals filed by Lula’s lawyers and by a unanimous vote maintained Lula’s conviction and 12-year prison sentence. Had it not been for the “stay” granted by the STF last week, the finalization of a conviction by a second-level court could have meant that Lula’s arrest warrant could have been issued that same day – Monday, 26th March. Under the Ficha Limpa law approved in 2010, this second level court conviction also means that Lula is ineligible for 8 years, and theoretically can not be a candidate in 2018. ➔ Stay tuned!!

### 1.5 – Lava Jato

#### 1.5.1 – Judge Moro confiscated US$ 5 million, Eduardo Cunha

On 26th March, Judge Sérgio Moro ordered the confiscation of US$ 5 million from former Chamber President Eduardo Cunha (MDB-RJ), who is in prison in Curitiba since October 2016. This
was the amount of the bribe Cunha received regarding the construction of off shore drilling platforms Petrobras 10000 and Vitoria 10000. The PGR has requested a 386-year prison term for Cunha. The PGR also requested the confiscation of the assets of Cunha’s wife and his children as well as firms with links with Cunha.

On the same day, the TRF-4 rejected all of Cunha’s appeals.

PGR ➔ Aécio Neves. On 27th March, the PRG (Raquel Dodge) requested that the STF install a formal investigation of Sen. Aécio Neves (PSDB-MG) that would make him become “an accused” (réu) because of the fact that Neves requested a R$ 2 million “loan” from Joesley Batista (JBS).

Jorge Picciani (MDB-RJ) – The former President of the RJ state legislature (AL-RJ), was arrested on 16th November 2017, accused of receiving bribes from Rio bus firms to favor their interests. In December, the PGR accused Picciani of leading a group of organized crime. His request for a habeas corpus was denied by STJ Judge Feliz Fischer. The “rules” affirm that the STF can not overturn such a decision by the STJ (Súmula 691). BUT on 27th March, the second working group at the STF decided otherwise. Judge Dias Toffoli was the reporter in favor of this habeas corpus. He recognized the Súmula 691, but argued that extraordinarily, for “humanitarian reasons” his status should be modified to “home arrest”. Judge Edson Fachin voted “No”, but Judge Celso de Mello votes “Yes”, stating that the medical/health conditions of Picciani were “precarious). The other two members of the second working group – Gilmar Mendes and Ricardo Lewandowski were traveling (absent) – do the final vote was 2-to-1.

Paulo Maluf (age 86) has been in the Papuda prison (an attack of “panic”) in Brasília since 22nd December 2017. Near midnight, 17th March, he had “alterations” in his health condition and was transferred to the (private) Home Hospital in Brasília for three days of “observation”. On 27th March, the Chamber Ethics Council was scheduled to vote out the request for Maluf’s cassação (expulsion) but did not meet for lack of quorum. On 28th March, STF judge issued an injunction authorizing the regime of house arrest for Maluf. According Maluf’s lawyer, Antonio Carlos de Almeida (Kakay), his house arrest will be in SP. The full STF should deliberate this injunction on 11th May. Previously, Judge Edson Fachin had denied this same request for house arrest for Maluf. After what his lawyers called a “dramatic night”, Maluf finally flew in a private plane to SP and arrived at his home the afternoon of 30th March

1.6 – Federal Police arrest Temer’s “partners”

Taking advantage of the judicial Easter recess, on 29th March (Holy Thursday), authorized by STF Judge Luís Roberto Barroso (Operation Skala), the Federal Police arrested several “partners” (cronies) of Pres. Temer ➔ 1) José Yunes, former Presidential advisor to Temer, lawyer in SP and a long (dear) friend of the President; 2) retired PM-SP Col. João Batista Lima Filho – a Temer “business partner” who serves as a “front” owner of several of Temer’s assets (farm, etc.); 3) Wagner Rossi (MDB-SP --former Dilma Agriculture Minister; and 4) businessman Antonio Celso Grecco, the owner of Rodrimar, a firm in the port of Santos, allegedly favored by a decree signed by Temer in 2017.

All told, there were 13 arrest warrants and 20 search-and-seize. The other nine arrested were ➔ Milton Hortolan, Eduardo Luiz de Brito Neves, Carlos Alberto Costa, Carlos Alberto Costa Filho,
Maria Eloisa Adenshon Brito Neves, Rodrigo Borges Torrealba, Ana Carolina Borges Torrealba, Gonçalo Torrealba and Celina Borges Torrealba. Four other persons were taken in for coercive testimony ➔ Edson Coelho Araujo, Almir Martins Ferreira, Zuleika Borges Torrealba, and Maria Rita Fratezi (wife of Col. Lima). For months, Col. Lima had avoided giving testimony with the Federal Police, but now he was taken to the Federal Police HQ with an arrest warrant issued by Judge Barroso.

On 29th March, Pres. Temer was present at the inauguration of the new airport in Vitória, ES. However, following the results of Operation Skala ES Governor Paulo Hartung (MDB) decided not to participate in this event.


One of the “targets of Operation Skala was the house of Temer’s daughter Maristela. Reportedly, large cash amounts were used in the renovation of this house under the supervision of Col. Lima’s wife, Maria Rita Fratezi (an architect). This is yet another “linkage” between Temer and Col. Lima.

Temer has been friends with Col. Lima since 1987 when Temer served as SP state Secretary for Public Security under Gov. Franco Montoro, then PMDB (1983-1986). During Temer’s divorce from Maria Célia de Toledo (the first of Temer’s four wives), Lima acted the “calm her down”.

![Clockwise: Jose Yunes, Wagner Rossi, Antonio Grecco & Col. Lima](image)

Probably, with Operation Skala the PGR will prepare a third accusation against Temer that will be submitted to the Chamber of Deputies. But like the first two accusations in 2017, the Chamber will reject this third initiative. Temer is already working with his leaders in Congress to “pack” the CCJ with favorable deputies. ➔ Stay tuned!

Detail: Celina Torrealba Borges in the granddaughter of Hermes Lima, prime minister under then Pres. João Goulart (PTB-RS) and then STF Judge forcibly retired by the military regime. She is a partner in the Libra Group that is “active” in the Santos port.

1.7 – Foro Previlegiado
This case that would put an end to the *Foro Previilegiado* for members of Congress and Cabinet Ministers began deliberations at the STF on 31st May 2017. But Judge Alexandre de Moraes requested *vistas* (to further study the question. Moraes returned the case to the full court at the end of September. However, after *eight* “positive” votes to end this “privilege”, Judge Dias Toffoli also requested *vistas* and finally returned this case to the full STF on 27th March 2018. Now, STF President Cármen Lúcia will again put this case on the High Court’s agenda. The three STF judges who have yet to cast their votes are – Gilmar Mendes, Ricardo Lewandowski and Dias Toffoli.

When the STF finally decides to abolish the “privilege”, that rules that members of Congress and Cabinet Ministers can only be judged (and convicted (?) by the STF, and not by first level federal and state courts. When this STF decision if finalized, some 150 deputies, 40 senators and 12 cabinet ministers will be “at the mercy” of first level federal courts. Stay tuned?

### 1.8 – Party switching, the window is still open

Congress opened a “window” for party switching between 7th March and 7th April – so this “opportunity” is available for another 8 days. The number of deputies that each party counts on 8th April will determine the proportion of the 2018 “election fund” and free TV propaganda time each party will receive. Thus, the energetic recruitment efforts by all parties to gain more deputies and lose as few as possible. As of 27th March, the score card is as follows – nearly 40 deputies have switched parties so far. See the list compiled by *Congress em Foco* below:


The PSL (Bolsonaro) has gained 9 deputies while the DEM (Rodrigo Maia) has gained 8 deputies.

### 2 – FOREIGN RELATIONS & TRADE

#### 2.1 – Brazil back to the UNSC

Because during the Dilma government, in December 2011, Brazil did not present its candidacy to return to the UN Security Council, it would have returned only in 2033-2034. However, via an agreement with Honduras, Apparently, Brazil will return to a non-permanent seat on the UNSC in 2022-2023.

### 3 – REFORMS

Nothing this week.
4 – PRIVATIZATION & REGULATION

4.1 – ANP auction of 68 oil/gas blocks

On Thursday, 29th March, the ANP conducted an auction of 68 oil/gas exploration blocks. This was the 15th such auction for exploration blocks. 47 of these blocks were off shore areas in the Campos, Santos, Ceará, Potiguar and Sergipe-Alagoas basins, while the other 21 were land-based in Paraná and Paranaiba. On 28th March, the TCU ordered two blocks removed from this auction. In June, the ANP will hold another auction of pre-salt areas.

See https://www.poder360.com.br/economia/anp-oferta-68-blocos-de-exploracao-de-petroleo-nesta-5a-entenda-o-leilao/

At the last minute, the TCU removed its block on the two most expensive areas in the ANP auction

This concession auction sold 22 exploration blocks R$ 8.014 (US$ 2.4 billion). Among the international firms who acquired these blocks – Exxon Mobil (8 blocks), Chevron (4 blocks), Royal Dutch Shell, Repsol, Statoil (Norway), BP (UK), Wintershql (Germany) and Total (French).

5 - ECONOMICS

5.1 – February Public Accounts

Current Account ➔ +R$ 283 million surplus

Primary Deficit ➔ -R$ 17.4 billion (-28.8% YoY)
- 12-month accumulation now -R$ 94.3 billion

Nominal Deficit ➔ -R$ 45.8 billion, 12-month accumulation -R$ 484.6 billion

Social Security Deficit ➔ -R$ 14.4 billion (+4% YoY)

Public Debt ➔ R$ 3.582 trillion (+1.53% MoM & 52% of GDP)

5.2 – March Inflation

On 28th March, the FGV released its IGP-M that indexes rents ➔ +0.64% versus +0.07% in February. The 12-month accumulation of the IGP-M is now +0.20% and the 2018 accumulation is now +1.47%.

5.3 – Central Bank reduces reserve requirements

On Wednesday, 28th March, the Central Bank reduced reserve requirements, and thus injected some R$ 25.7 billion into the economy as it emerges from two years of recession. The Central Bank in
concerned with the low level of economic activity in Brazil. However, it is not clear how the commercial banks will utilize these new resources.

5.4 - Unemployment

On 29th March, IBGE released its data on unemployment for the December-January-February period ➔ 12.6% -- 13.1 million (up by 4.4% QonQ). This increase in unemployment was in large part due to the exit of the temporary jobs during the holiday season. However, the comparison with the same period in 2017 was +0.6%. The number of employees with formal work contracts declined with an increase in workers without such contracts.