Brazil Focus –

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Weekly Report

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Looking Ahead ➔ What to watch for?

- **12th May** -- IBGE, Services Sector data for March % MoM & % 12-months
- **13th May** -- Brazilian Abolition Day (slaves freed 1888) – not honored by Afro-Brazilians
- **15th May** -- Central Bank, IBC-Br for March ➔ % MoM & % 1st Q/2018 vs. 4th Q/2017
- **15-16 May** -- Copom Meeting ➔ Selic rate
- **16th May** -- Caged data ➔ new jobs created in April
- **17th May** -- IGP-10 ➔ %, *versus* % in April
- **18th May** – Concession auction for Eletropaulo
- **18th May** -- SRF ➔ tax collections of R$ billion in April & +0.% YoY
- **23rd May** -- IBGE to post IPCA-15 at +0.%
- **23-26 May** -- 36th LASA Congress in Barcelona, Spain
- **28th May** -- Memorial Day observed [holiday in the US]
- **30th May** -- IGP-M for May ➔ %, *versus* % in April
- **30th May** -- IMD – 2018 World Competitiveness Ranking, Brazil ➔
- **30th May** -- IBGE-PNAD Feb-March-April unemployment, ➔
• 30th May -- Central Bank announced public account data for April:
• 30th May-2nd June -- BRASA-Brazilian Studies Assn., PUC-Rio
• 31st May -- Corpus Christie – national religious holiday in Brazil
• 1st June -- Friday “feriado enforcado” – informal holiday
• 1st June -- Trade Surplus for May ➔ US$ billion
• 4th June -- IPU-Inter Parliamentary Union ranking “Women in Parliament”

1 - POLITICS

1.1 – Pres. Geisel ordered executions in 1974

On Thursday, 10th May, Prof. Matias Spektor (FGV-RJ) revealed a CIA document that he had discovered that detailed a meeting of recently inaugurated resident Gen. Ernesto Geisel with Generals Milton Tavares de Souza and Cofúcio Danton de Paula Avelino -- then commanders of the CIEx (Army Central Intelligence) plus Gen. João Batista Figueiredo, then head of the SNI and Geisel’s successor in 1979. This meeting took place on 30th March 1974 where Gen. Tavares and Avelino explained to Geisel that the CIEx had summarily executed 104 “notorious” dangerous terrorists and requested to continue this policy during the Geisel government (1974-1979). Reportedly, Geisel said that he would “think about this” over the weekend, and then said “Yes, go ahead, continue this practice”.

Matias Spektor discovered this CIA memorandum from then CIA Director William Colby to Pres. Nixon’s then Secretary of State Henry Kissinger dates 11th April. It is know known how the CIA obtained the information regarding this meeting – either via a wiretap or from an informant.


Although this episode was briefly “alleged” by Elio Gaspari in his four-volume series on the military regime and examined very partially by the “Truth Commission” chaired by Pedro Dallari. This CIA document alters the “vision” of the Geisel government as promoting a “distention” or opening in a “gradual and secure” return to civilian rule.

This revelation has also impacted the positions of several pre-candidates for president in 2018 – especially the segment of the Brazilian electorate that favors a return to military rule. Former Army
Captain, Deputy Jair Bolsonaro (PSL) brushed aside this “new fact” saying “These executions during the military regime were like a father spanking the butt of his child”.


1.2 – The 2018 Campaign

Joaquim Barbosa negated his pre-candidacy for president on Tuesday, 8th May. As required by Brazil’s election rules, Barbosa had formally joined the PSB one month ago on 6th April – one day before the deadline for party membership – 7th April. He affirmed that after much reflection, he had decided not to run for president “for personal reasons”. Although Barbosa was not an “official” pre-candidate, his name was included in several opinion polls and recently reached 8%. He was the number one “outsider” in the 2018 campaign.

The PSB had been pressuring him to formally and publically assume his pre-candidacy and had been outlining policy positions that he should assume as the PSB candidate. Barbosa had made no public statements but had said some things via social media. In fact, he communicated his “non-candidacy” via social media and not in any public statement. Some thought that this is a “tactic” to get the PSB “off his back” – but perhaps not.

He did mention three threats to Brazilian democracy ➔ 1) PSL pre-candidate Jair Bolsonaro; 2) President Michel Temer; and 3) possible military intervention.


https://josiasdesouza.blogosfera.uol.com.br/2018/05/09/presidenciaveis-disputam-o-espolio-de-barbosa/


Want more? In 2017, Joaquim Barbosa launched a new book published by Almedina – Pareceres Jurídicos -- Direito Penal, Direito Regulatório, Direito Tributário, Responsabilidade Civil that lists his briefs prepared for certain firms and persons in some major court cases. Usually the remuneration for such briefs by a former STF President is very high – R$ 300,000,00 or more. The “clients” in these cases remain “anonymous” but many analysts have “discovered” their identities because of the content of these briefs. Thus, many analysts feel that these briefs might be one of the reasons why Barbosa decided not to run for President.

See ➔ https://www1.folha.uol.com.br/colunas/luizweber/2018/05/os-clientes-ocultos-de-joaquim-barbosa.shtml

Remember: Last year, long-time PCdoB leader, Aldo Rebelo, abruptly joined the PSB and many thought that he anted to be the party’s presidential candidate. However, in early April, when it
became apparent that former STF President, Joaquim Barbosa, was about to join the PSB, Rebelo switched to the SD (Solidariedade – the party of Dep. Paulo Pereira da Silva (SP).

**Now what?** Which pre-candidates should benefit from Joaquim Barbosa’s decision? Both Geraldo Alckmin (PSDB) and Ciro Gomes (PDT) apparently think that Barbosa voters should “drift” towards them. Probably, the PSB will now seek a presidential coalition that does not have a negative impact on their candidates for governor in several states. Datafolha research director, Mauro Paulino affirmed that Marina Silva (Rede) should be the candidate most benefited by the exit of Barbosa.

On 9th May, TV Band presenter, José Luiz Datena affirmed that because of the decision of Joaquim Barbosa not to run for president, he has decided to run for the Senate in SP. He said that the exit by Barbosa has decreased the number of “outsiders” competing in the 2018 elections. In the most recent election poll in SP, Ibope found that Datena (DEM) led the field for the Senate with 33%, followed by Eduardo Suplicy (PT) with 32%, Marta Suplicy (MDB) with 25% and Marco Feliciano (Podemos) with 14%.

**1.2.1 – In search of a Vice**

The decision by Joaquim Barbosa not to run for president unleashed the active search for running mates (pre-candidates for Vice-President by the so-called “front runners”).

**Jair Bolsonaro** (PSL) is talking to wealthy business man Flávio Rocha (PRB) as well as Senator Magno Malta (PR). Malta would attract a considerable number of evangelical/Pentecostal voters.

**Ciro Gomes** (PDT) is considering three possibilities ➔ Josué Gomes (PR), Benjamin Steinbruch (PP) and Fernando Haddad (PT). Josué is the owner of a large textile conglomerate (Coteminas) and is the son of Lula’s vice-president, José Gomes de Alencar (PL). Steinbruch is the owner to the CSN (Volta Redonda privatized steel mill. Haddad would be an option if the PT joins a coalition in support of Ciro Gomes.

The **PT** is considering two possibilities for running mates for Lula ➔ Manuela D’Ávila (PCdoB) and Fernando Haddad (PT).

**Geraldo Alckmin** (PSDB) is attempting to form an alliance with the MDB. If this combination comes to pass, the MDB pre-candidate Henrique Meirelles might become Alckmin’s running mate. **However** – a recent study by the MDB revealed that **20 out of 27** state chapters of the MDB are against (negative) regarding a coalition in favor of Geraldo Alckmin.

See ➔ https://oglobo.globo.com/brasil/pesquisa-nacional-mostra-que-pmdb-rechaca-alianca-com-alkmin-22672260

**1.3 – Foro Previlegiado**

Last week, the STF partially restricted the use of this **Foro** to protect (cover) deputies and senators from prosecution by first and second level state and federal courts. As a result, the ten STF judges who have several of these **Foro** cases to report out have separated those not included in the
recent STF interpretation and have dispatched them to first level state and federal courts. This process is not yet complete. As of 10th May, 57 cases has been transferred to lower courts. ➔ Stay tuned!!

The STJ quickly followed the STF decision and released the cases of several governors to be deliberated by first level federal and state courts.

On 9th May, STF Judge Dias Toffoli proposed that the STF extend its Foro restriction to all positions in the Executive and Judicial branches of government. It is possible that STF President Cármen Lúcia will put this on the agenda of the STF in May.

Meanwhile, finally, the Chamber installed the special committee to deliberate the PEC already approved by the Senate. This PEC would totally eliminate the Foro except for the Presidents of the Republic, Chamber, Senate and STF. During the installation of this committee there many complaints regarding the “judicialization” of this question by the STF and that this was a matter to be decided by the Congress. Remember: The Senate approved this PEC last year and Chamber President Rodrigo Maia (DEM-RJ) did not install this committee in 2017 but did so in May 2018 (11 months later) under pressure from the STF decision. But no PECs can be approved by Congress during the military intervention in the state of Rio de Janeiro. Some deputies proposed that the Foro coverage be extended to ex-Presidents that would “cover” Pres. Michel Temer as of 1st January 2019, as well as Lula, Dilma and Fernando H. Cardoso.

1.4 – Lava Jato

The TSE “liberated” former Rio Mayor, Eduardo Paes (DEM) and his former cabinet secretary Pedro Paulo Teixeira (DEM) to run for office in 2018.

Former SP Mayor and Lula's campaign manager, Fernando Haddad, was denounced (accused) at the TRE-SP for using unlawful fiscal receipts in his campaign in 2012.

Carlos Augusto de Almeida Ramos (Carlinhos Cachoeira) was arrested in Goiânia on 10th May at the request of courts in Rio regarding his conviction for fraud regarding lotteries in Rio (Loterj). He is a well known leader of number rackets in Goiás and other states.

Paulo Preto was imprisoned and many thought that he would begin plea bargaining shortly. BUT on Friday, 11th May, STF Judge Gilmar Mendes issued a habeas corpus that freed the PSDB operator”. Meanwhile while Paulo Preto was in prison, “robbers” entered his home in Campos do Jordão and stole the safe they found there.

1.5 – The case of Marielle Franco

The murder of Rio city council member, Marielle Franco (PSOL), on 14th March, continues under investigation. However, on 9th March a new witness appeared who linked two persons to this crime – Rio city council member Marcelo Siciliano (PHS) and ex-PM Orlando Oliveira de Araújo – known as Orlando Curicica. The latter is identified as a leader of the milícia in the Western zone of Rio and has been in prison since late 2017. Now, Rio police believe that a 9 mm sub-machine gun (a German-made HK MP5) was used and not a 9 mm pistol.
2 – FOREIGN RELATIONS & TRADE

2.1 – Brazil to “punish” companies that practice corruption overseas??

In a move that to a certain extent “imitates” the US FCPA-Foreign Corrupt Practices Act that was approved in 1977 and amended in 1988 and 1998. The FCPA punishes and individual executive or company that engages in bribe or “reward” payments overseas (in other nations) to secure contracts or benefits. Many US companies complain that the FCPA has inhibited their “competitiveness” overseas (no longer a “level playing field”).

On 7th May, the Ministry of Transparency and the CGU began an initiative to collect data of bribery and corruption practiced by Brazilian firms in other nations and that this information would be used to “punish” these firms in Brazil 1) A 20% fine on the respective firm’s gross annual earnings; and 2) These firms would be prohibited from bidding on public contracts in Brazil for 5 or 10 years.

Apparently, these would be “administrative” sanctions and the CGU will not seek congressional approval of specific legislation (that probably would not be approved).

See ➔ http://politica.estadao.com.br/noticias/geral,cgu-quer-punir-empresas-por-suborno-internacional,70002299183

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – Viracopos concession

In 2017, the concession that administers the Viracopos airport in Campinas, SP tried to return the concession to the federal government, but ANAC and the government dragged their feet and did not accept this offer. With debts of R$ 2.9 billion (most from BNDES loans) and another R$ 211 million in concession payments, on 6th May, the concession asked for a “judicial recovery. This concession, granted in 2012, (Aeroportos Brasil) has three partners UTC, Triunfo and Egis (French. The first two firms are involved in the Lava Jato investigations and UTC in more or less bankrupt. The main causes of the situation of this concession is the very bad model, and the expectations of increasing volumes of passengers and air cargo via Viracopos. In 2015-2016, Brazil had one of the worst recession in history and these volumes and revenues declined.

On 9th May, Judge Bruna Marchese in Campinas issued an injunction suspending the attempt by ANAC to cancel the concession and suspended the BNDES loan payments plus installments to the federal government while the judicial recovery request in being deliberated.
On 26th April, a private equity management fund (IG4 Capital) joined forces with Zurich Airport Latin America to make a proposal for the control of the Campinas airport. Zurich already operates the concessions of two airports in Brazil – Florianópolis (SC) and Confins (MG). This partnership might be ready to invest up to US$ 200 million.

4.2 – Santo Antonio hydro concession

The Santo Antonio hydro electric installation on the Rio Madeira in Rondônia invested R$ 20 billion to complete this project. This hydro is the fourth largest (in power generation) in Brazil. The concession holders (Cemig, Sang Investmentos, Odebrecht Energia, Caixa FIP Amazonas and Furnas has an outstanding debt of R$ 1 billion and has appealed to Aneel and CCEE for relief. Meanwhile, Santo Antonio has also appealed to the STJ requesting a “suspension of security” while it tries to renegotiate its debt.

4.3 – Eletropaulo

The sale of the Eletropaulo concession is set for 4th June but the struggle by potential bidders to participate in this auction continues. Enel and Neoenergia have declared their intent to bid on Eletropaulo and had requested the CVM (stock market monitoring agency) to modify the “rules” to avoid the appearance of a “sleeper” (a firm that has not declared its intent publicly before hand on the day of the auction (4th June). Reportedly, shares of Eletropaulo have increased to the point the sale value has reached R 5.4 billion.

5 - ECONOMICS

5.1 – Inflation

5.1.1 - April Inflation - IPCA

On 10th May, IBGE released its IPCA data for April – +0.22% versus +0.09% in March. The main price increases in April were medicines and health insurance plans. The 12-month accumulation of the IPCA is now +2.76% – below the target minimum of +3.0%.

5.1.2 – IGP-M – May preview

On 10th May, the FGV released its preview for the May IGP-M – +1.12% versus +0.18% in April. The main cause of this result was the increase in wholesale prices.

5.2 – March Retail Sales

After a sequence of “ups and downs”, in March, retail sales in Brazil posted a positive result – +0.3% MoM – the first positive result for March since 2013. With this result, retail sales in 1st Q/2018 were +0.7% YoY – +0.9% in January, -0.2% in February and +0.3% in March. The 12-month accumulation is now +6.5%.