Weekly Report
May 19-25 2018

Looking Ahead ➔ What to watch for?

- 28th May -- Memorial Day observed [holiday in the US]
- 29th May -- TSE should totally preclude Lula's candidacy
- 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 -- IBGE to announce GDP data for 1st Q/2018 ➔ % (QonQ) but % YoY
- 30th May-2nd June -- BRASA-Brazilian Studies Assn., PUC-Rio
- 31st May -- Corpus Christie – national religious holiday in Brazil
- 3rd June -- Friday “feriado enforcado” – informal holiday
- 4th June -- Trade Surplus for May ➔ US$ billion
- 4th June -- IPU-Inter Parliamentary Union ranking “Women in Parliament”
- 4th June -- Fenabrave – auto sales units in May, % MoM & % YoY
- 4th June -- Investments % of GDP in 1st Q/2018
4th June -- IBGE to release IP data for April ➔ +0.% MoM but -% YoY
5th June -- Anfavea to announce auto production in May (% MoM & % YoY)
7th June -- Savings Accounts — result in May ➔ R$ million
7th June -- FGV to announce IGP-DI for May, % %, versus % in April
8th June -- IBGE to announce May IPCA ➔ +0.% versus +0.% in April
12th June -- St. Anthony's Day – St. Valentine's Day in Brazil
13th June -- IBGE, April retail sales data +0.% MoM & % YoY
14th June -- IBGE ➔ Retail Sales +% YoY & +% MoM in April (FGTS disbursements)

1 - POLITICS

1.1 – National truck drivers’ strike/protest

On Monday, 21st May, thousands of truck drivers began a nationwide strike by using their trucks to block major federal and state highways in protest against the high price of diesel fuel. These roadblocks began to have a very strong effect on Tuesday and Wednesday ➔ 1) Trucks carrying foodstuffs were not able to arrive at distribution centers in large cities; 2) Tank trucks carrying kerosene (aviation fuel) did not reach major airports and this threatened massive cancelation of flights; 3) Urban bus companies had to reduce their routes and frequencies because they did not have enough diesel fuel reserves – in Rio city buses sought out diesel at commercial service stations that still had diesel; 4) The Post Office suspended receiving packages and its overnight delivery service (Sedex-10); 5) On 25th May, ALL auto/truck assembly lines ceased operations for lack of parts and components.

The Temer government made a “feeble” offer – to cancel the Cide tax on diesel fuel (that would reduce the price but R$ 0,04 per liter – but conditioned this to Congress repealing the payroll tax exemptions for some 30 economic sectors. The truckers’ representatives met with the Temer government on Wednesday afternoon and left empty-handed – “no way, José”. Later that afternoon, Petrobras CEO announced that the price of diesel at the refineries by 10% (R$0.23 per liter) -- for 15 days as a “gesture of good will”. As a result, Petrobras ADRs on the NYSE declined by -10.99%. However, this “gesture” was not well received by the truckers and their strike continued on Thursday. They affirmed that they want diesel fuel at the same price as in Bolivia.

At the same time, Chamber President Deputy Rodrigo Maia (DEM-RJ) and a pre-candidate for President announced that he had put the elimination of other federal taxes on diesel (PIS/Confins) on the voting agenda on 23rd May. Confronted by the consequences of the truckers’ strike, the “lame duck” Temer government was totally inept and incapable of dealing with this crisis.

Investors are now worried that Petrobras CEO Pedro Parente has lost his independence and autonomy, as the ADRs on the NYSE declined further on Thursday, 24th May. The truckers want a lower price for diesel fuel for a six-month period with no alterations. On 25th May, Petrobras stocks declined by 14% on Bovespa and Petrobras lost R$ 47.2 billion market value in one day and was surpassed by AmBev as the Brazilian firm with the largest market value.
On Thursday, the airports in Brasília, Goiânia, Recife and Teresina operated with restrictions ➔ only planes with enough fuel to takeoff again to their next destination were allowed to land. In several states, supermarkets advised that they were not receiving re-supply trucks and that the shelves would soon be empty. Many meat packing plants (beef, pork and chickens) ceased operations for lack of trucks. Many chicken producers said that their stocks of feed were very low. Many dairy farmers were dumping their milk because tank trucks could not reach their farms. In most large cities, long lines of cars formed as gas stations that still had stocks to fill their tanks.

With the policies announced/approved – 10% price reduction by Petrobras (R$ 0,25), suspension of the PIS/Confins tax (R$ 0,23) and the elimination of the Cide tax (R$ 0,03), the total price reduction for diesel fuel should reach R$ 0,53 per liter. This policy will further expand the current fiscal deficit of the Temer government in 2018.

The protest movement by independent truckers was reinforced by the support/inclusion of truck transportation companies.

All auto/truck assembly lines ceased operations on 25th May. Many hospitals limited surgery to emergency cases because of lack of supply of material and supplies of oxygen (delivered by truck). Many supermarkets limited the number of items customers could buy.

The President of the Senate, Eunício Oliveira (MDB-CE) was “offended? By the quick approval of the end of the PIS/Confins tax on diesel by the Chamber, and departed for Ceará on Wednesday evening, leaving the Senate adrift with the urgent necessity to approve the proposal from the Chamber.

In is rumored that “Lame Duck” President Michel Temer might be forced to dismiss Pedro Parente as President of Petrobras. Analysts cite his “dollarization” of fuel prices as a big mistake. Another measure (that would not affect the price of diesel fuel) would be to remove the distribution of ethanol fuel for the control of Petrobras – ethanol producers would supply distributors directly.

“Agreement” – Early Thursday evening, 24th May, representatives of the Temer government announced that an “agreement” had been reached to end the nationwide strike/protest by the truck drivers ➔ 1) The elimination of the Cide tax on diesel; 2) The extension of the 10% reduction in the price of diesel by Petrobras from 15 to 30 days; 3) The elimination of the PIS/Confins levy on diesel fuel; 4) Petrobras would only readjust prices every 30 days, and not daily; 5) As of 1st June, a new table of freight rates would be published and readjusted periodically; 6) Promote reductions for toll road charges by states for empty trucks; 7) Issue an MP that would allow Conab to hire truck transportation without any bidding process; 8) Not include the highway transportation sector in the return of payroll taxes; 9) Eliminate all law suits against the truck drivers’ movement; 10) The impact of this accord will be evaluated in 15 days; 11) Allow independent truckers access to Petrobras fuel transportation; and 12) Oblige Petrobras to obey ANTT Resolution 420/2004 regarding the renovation of truck fleets for highway transportation.

This “agreement” left the truck drivers’ movement divided, but later the unified group rejected this accord and the strike and highway blockades continued on Friday.
Early Friday afternoon, Pres. Temer announced that all federal police forces and the Armed Forces were ordered to remove all highway blockades organized by truck drivers. At 3:00 p.m., Defense Minister, Gen. Joaquim Silva e Luna affirmed that the Armed Forces would work quickly and rigorously to disband these roadblocks. Army units began operations to eliminate blockades in critical points. BUT some officers commented that perhaps the Armed Forces would not have enough fuel to complete these operations.

About the same time, the president of Abcam-Brazilian Assoc. of Truck Drivers, José da Fonseca Lopes (who did not sign the “agreement”), asked truckers to remove the roadblocks because he feared for the safety of the drivers. He also affirmed that Abcam had been complaining about this situation since October 2017, and the Pres. Temer was very slow (amiss) in his reaction to this problem.

1.2 – Lava Jato

1.2.1 – Sérgio Moro  Univ. Notre Dame

On Sunday, 29th May, Judge Sérgio Moro was the commencement (graduation) speaker at Notre Dame University (one of the oldest Roman Catholic universities in the US) and received an honorable doctorate in Law. He exhorted the graduates to always seek just causes to defend and affirmed that in Brazil “No one is above the Law”. He remembered that so far 157 persons have been convicted for corruption activities in the Lava Jato investigation.


1.2.2 – MDB (ex-PMDB)

On Monday, 21st May, one of the “operators” for the MDB, Mário Miranda, confessed that he had operated bribes for the MDB extracted from corrupt transactions with Petrobras and returned US$ 7.2 million. Miranda and Sérgio Bocaletti are accused of receiving US$ 31 million in accounts that they operated.

Want more? On 18th May, STF Judge Gilmar Mendes ordered the release of another MDB “operator”  Milton Lyra plus four other “operators” investigated (and under arrest via Operation Rizoma. The latter were involved in corruption regarding the pension funds of the Post Office and Serpro.

1.2.3 – Raul Schmidt

Via his “art gallery” in London, Raul Schmidt was accused of massive money maulding, but sensing the Lava Jato investigation moved to Portugal and acquired Portuguese citizenship in 2011 in an effort of avoid extradition to Brazil. He was imprisoned and released several times and last week a PGR representative traveled to Portugal and convinced the authorities that in spite of his habeas corpus, Schmidt’s crimes were committed before 2011 and thus could indeed be extradited to Brazil.
Thus, the Tribunal de Relação in Lisbon determined the immediate extradition of Schmidt to Brazil. However, the Portuguese Court said the time limit for Schmidt’s extradition had expired and “put the case into its files”.


1.2.4 – Hochtief do Brasil

The Hochtief construction firm under investigation by the Lava Jato task force for its participation in a consortium with Odebrecht and Camargo Corrêa in the construction of the Petrobras HQ in Vitória, ES, sub-contracted the Geobase Construção e Pavimentação owned by Maria Teresa de Abreu Moreira, the mother of Renata Moreira – the wife of Fábio Luís Lula da Silva – Lulinha.

1.2.5 – Fachin authorized visits for Lula

On 23rd May, STF Judge Edson Fachin authorized a commission of federal deputies to visit Lula in the Federal Police prison in Curitiba to “inspect” the facility where Lula is held prisoner. Federal Judge Carolina Lebbos had denied this request twice. This commission will include deputies from the PT, PCdoB, PDT, PSB and PSOl.

1.2.6 – Delúbio Soares

On 23rd May, the TRF-4 confirmed the conviction of Delúbio Soares, a former PT treasurer and his sentence for six years in jail. Delúbio had already been convicted for his participation in the Mensalão. This 2018 conviction is an outgrowth of the very “dubious” R$ 12 million loan by the Banco Schain to José Carlos Bumlai in October 2004 that the Lava Jato task force alleged was destined for the PT. Soares will begin serving his prison term immediately. On Thursday, 24th May, Delúbio Soares turned himself in to the Federal Police in São Paulo. Soares will be jailed in the Papuda prison in Brasília. However, because of the problems of the Brasília airport (caused by the truckers’ strike), Judge Moro decided that for the time being, Soares would remain in prison in SP.

1.2.7 – Lula’s candidacy preempted

Apparently, the TSE will apply a total and final veto of a possible candidacy by Lula for President in 2018 – on Tuesday, 29th May. The TSE will reaffirm by a unanimous vote that anyone convicted by a second-level court is ineligible to run for office for 8 years – in accordance with the 2010 Ficha Limpa Law. This would thus preclude any attempt by the PT to register Lula’s candidacy

1.3 – 2018 Elections

1.3.1 – “Family” candidates

In October, family “pairs” will be running for election in eight states – but not always via the same political party.

Alagoas (MDB) ➔ Renan Calheiros, Senator & Renan Filho, Governor
1.3.2 – Temer bows out

On 22nd May in a formal ceremony, Pres. Temer announced that he was no longer a pre-candidate for reelection in 2018 and “anointed” his former Finance Minister Henrique Meirelles as the MDB pre-candidate. This had been previously announced by the national MDB President, Senator Romero Jucá (MDB-RR). Temer had launched his pre-candidacy in an effort to: 1) Defend his government’s accomplishment; and 2) So as not to become a premature “lame duck”. Neither objective was obtained. For Meirelles, the task of defending the “track record” of the Temer government will be very difficult.

1.3.3 – Minas Gerais

Paraná Pesquisas conducted a poll in MG between 18-23 May among 1,850 voters in 85 municípios with a 2.5-point margin of error.

<table>
<thead>
<tr>
<th>First Round</th>
<th>(PSDB)</th>
<th>(PT)</th>
<th>(PSB)</th>
<th>(MDB)</th>
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<tbody>
<tr>
<td>Voter Opinion</td>
<td>Antonio</td>
<td>Fernando</td>
<td>Márcio</td>
<td>Rodrigo</td>
</tr>
<tr>
<td>Anastasia</td>
<td>11.2%</td>
<td>7.9%</td>
<td>4.9%</td>
<td>1.2%</td>
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<tr>
<td>Pimentel</td>
<td>45.2%</td>
<td>40.9%</td>
<td>45.1%</td>
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<tr>
<td>Lacerda</td>
<td>39.3%</td>
<td>47.9%</td>
<td>39.5%</td>
<td>47.2%</td>
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<tr>
<td>Pacheco</td>
<td>3.1%</td>
<td>1.8%</td>
<td>8.8%</td>
<td>25.2%</td>
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<td>1.5%</td>
<td>1.8%</td>
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<tr>
<td>DK/NR</td>
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Different from other polls, voters expressed their opinions for each of the four candidates in this first round simulation. Anastasia had the largest favorable opinions (56.4%), followed by Pimentel (48.8%), Lacerda (50.0%) and Pacheco (25.4%). It is clear that the MDB pre-candidate is less well known (25.2%) that the other three.

Rejection: Anastasia (39.3%) and Lacerda (39.5%) have the lowest rates, while Pimentel (47.9%) and Pacheco (47.2%) have the highest rates.

Second Round

Paraná Pesquisas simulated a second round runoff election with three candidates – Anastasia, Pimentel and Lacerda.
Sen. Antonio Anastasia (PSDB) would defeat both incumbent Governor Fernando Pimentel (PT) and Márcio Lacerda (PSB) on a 2nd round runoff election. However, Pimentel would defeat Lacerda on a 2nd round.


### 1.3.4 – Valdemar & Bolsonaro

There are “indications” that former deputy Valdemar Costa Neto might seal an agreement that his PR would support pre-candidate Jair Bolsonaro (PSL). If so, this would strengthen Bolsonaro’s campaign considerably. Valdemar was convicted as an active participant in the Mensalão (2003-2005), but still has control and command of the PR. If the PSL and PR enter into a formal election coalition, this would give Bolsonaro more TV propaganda time. However, it is not known whether this “alliance” will be formalized, or remain informal”. Costa is not very favorable to the idea that Sen. Mango Malta (PR-ES) could be Bolsonaro’s running mate – that would require a formal election coalition. But things could change before the national party conventions in late July.

In 1994, Valdemar Costa Neto ended the candidacy of Flávio Rocha and led the PR into a coalition in support of the PSDB candidate, Fernando H. Cardoso. Because he thought that Cardoso had not given the PR enough “perks”, in 1998, he put the PR into a coalition in favor of Ciro Gomes (then PPS). In 1999, Costa Neto again supported the Cardoso governing coalition in Congress. In 2002, Costa’s PR allied with Lula and suggested Sen. José Alencar (PL-MG).

One press comment was acute and accurate ⇒ “Bolsonaro and Magno Malta would be a ‘perfect marriage’ – but the mother-in-law [Costa Neto] would go along on the honeymoon”.

### 1.4 – Eduardo Azeredo (PSDB-MG)

Finally, it was the PSDB’s turn to have a major figure convicted and imprisoned for corruption. Other parties lead this list ⇒ PT, MDB, PP, etc.

Eduardo Azeredo was elected PSDB governor of Minas Gerais in 1994 and was running for reelection in 1998 against former President Itamar Franco (PMDB). Azeredo and his reelection group enlisted the services of the advertizing agency of Marcos Valério to help siphon off resources from the MG government agencies to use in his unsuccessful reelection campaign ⇒ some R$ 4 million. The same Marcos Valério was enlisted by the first Lula government in 2003 to siphon off funds to be used to secure the votes of its coalition “partners” in Congress. This exploded in 2005 and became known as the Mensalão. Thus the scheme used by Azeredo in 1998 became known as the Mensalão Mineiro.
Azeredo was elected Senator in 2002 and then federal deputy in 2010, but resigned while this case was being deliberated by the STF, thus provoking the transfer of this case to a first level court in Belo Horizonte.

Azeredo was convicted and sentenced by a first level court and then this conviction was upheld by the second level court (TJ-MG) – the MG state supreme court. Finally, after all the appeals by his lawyers, on 22nd May 2018 (20 years later) the TJ-MG ordered his arrest and imprisonment.

**However**, Azeredo did not turn himself in that afternoon (22nd May), and the police were not able to locate him, so he was declared a “fugitive from justice”. Apparently, he was awaiting (hoping for) the STJ to issue a *habeas corpus* on his behalf, and his lawyers were negotiating the locale of his imprisonment that would be consistent with the “dignity” of the offices he had occupied – Governor, Senator & Deputy. On Wednesday morning, STJ judge Jorge Musi denied his *habeas corpus*.

In the end, he presented himself to the police on Wednesday afternoon, 23rd May, around 4:30 p.m. The result of these “negotiations” was that Azeredo was imprisoned in a special room at the HQ of the MG firefighters, and not a regular prison. Because he has a college degree, he would be held in a special cell in prison, and not in a “collective cell” with other prisoners.

**Problem:** As national President of the PSDB, pre-candidate Geraldo Alckmin refuses to expel Eduardo Azeredo from the party. He also refused to expel Aécio Neves.

### 1.5 – Alberto Dines dead at 86

One of the true “giants” of Brazilian journalism, Alberto Dines, died on 22nd May in the Alberto Einstein Hospital in SP – after a very heavy cold turned into pneumonia. Born in February 1932, in Rio to Jewish parents, he began his career in journalism in 1952 as a cinema critic, but quickly moved into reporting/analyzing politics, first with the *Visão* weekly magazine and then with the new *Manchete* in 1957. In 1959, he moved to *Última Hora* (owned by Samuel Wainer) and in 1960 with the *Tribuna da Imprensa*. In 1960, João Calmon invited Dines to become the Director of the *Diário da Noite* – part of the Diários Associados empire run by Assis Chateaubriand in 1962 became the Chief Editor at the *Jornal do Brasil* until 1974. As of 1963, Dines was professor of Journalism at PUC-Rio.

As commencement speaker at PUC-Rio in mid-December 1968, he harshly criticized the recent AI-% and the censorship of the press. As a result he was imprisoned for a few days. Another censorship episode in 1973 was “remarkable”. The JB censor ordered the newspaper not to use a headline to report the military coup by Gen. Pinochet against President Allende in Chile on Sept. 11. Dines complied with the censor’s edict – and published a four-column front page report with no headline. ➔ See the attached *O Globo* story.

Dines also worked at the *Folha de São Paulo* and the *Editora Abril*. In 1994, Dines helped Unicamp found the Laboratory for Advanced Journalism Studies (Labjor). In 1999, Labjor evolved into a graduate course in Scientific Journalism. In May 1998, Dines’ Press Observatory began a TV version, produced by the TVE in Rio and the TV Cultura in SP, and transmitted weekly by the TV Brasil – Brazil’s Public TV Network.

2 – FOREIGN RELATIONS & TRADE

2.1 – Colombia joins OECD

On 25th May, the OECD announced that Colombia had been accepted as the 27th member of this international organization. The last two Latin American nations to be accepted were Chile and Mexico.

3 – REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – May Inflation ➔ IPCA-15

On Wednesday, 23rd May, IBGE released its IPCA-15 ➔ +0.14% versus +0.21% in April. This was the lowest result for the IPCA-15 since +0.09% was posted in 2000. This “preview” was much lower that the estimate of economists surveyed by Reuters (+0.25%). Prices for food and transportation contributed to this reduction in the IPCA-15. The 12-month accumulation of the IPCA-15 is now +2.70%.

However, the full IPCA for May should be higher because of the impact of the truck drivers’ protest movement (as of 21st May) that caused food prices to soar and provoked other prices increases.

5.2 – April Public Accounts

- **Current Account** ➔ + 620 million surplus
  ➔ In 2018, -US$ 2.6 billion deficit

- **FDI** ➔ US$ 2.6 billion, down by 50% YoY
  ➔ In 2018, U$ 20.3 billion, down by 30% YoY
Overseas spending by Brazilians ➔ US$ 1.5 billion (+16% YoY)
➔ Slightly higher than US$1.3 billion in April 2017