\textbf{Brazil Focus –}
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\textit{Weekly Report –}
April 11-17 2015

\textbf{Looking Ahead  \rightarrow  What to watch for?}

- 17-19 April -- Spring Meetings of IMF and World Bank Group, Washington, DC
- 21\textsuperscript{st} April  -- \textit{Tiradentes} National Holiday [Martyr of Independence]
- 22\textsuperscript{nd} April  -- Earth Day
- 22\textsuperscript{nd} April  -- Petrobras is to release audited financial balance for 2014
- 23\textsuperscript{rd} April  -- Municipal holiday in Rio de Janeiro  \rightarrow  São Jorge
- 28\textsuperscript{th} April -- FGV to release April IGP-M  \rightarrow  +0.\%, \textit{versus} 7\% in March
- 28\textsuperscript{th} April -- SRF to announce March tax collections  \rightarrow  R$ billion (\% YoY)
- 28-29 April -- 190\textsuperscript{th} Meeting of Copom  \rightarrow  Selic Rate
- 29\textsuperscript{th} April -- Senate to begin confirmation hearings for Luiz Fachin
- 30\textsuperscript{th} April -- Public Account data for March
- 1\textsuperscript{st} May  -- Labor Day [National Holiday]
- 4\textsuperscript{th} May  -- Trade balance for April  \rightarrow  +US$ billion
- 4\textsuperscript{th} May  -- Fenabrave, new auto units sold in April  \rightarrow  \% in Jan-April (\% vs, 2014)
• 5th May -- IBGE: March Industrial Production ➔ -0.% MoM, & -0.% YoY
• 5th May -- Central Bank to announce FX flows of US$ billion in April
• 6th May -- FGV: April IGP-DI ➔ +0.%
• 6th May -- EIU & Pearson International to release The Learning Curve survey
• 7th May -- IBGE to post IPCA for April ➔ +
• 13th May -- Brazilian Abolition Day (slaves freed 1888), not honored by Afro-Brazilians
• 15th May -- Central Bank to announce March IBC-Br ➔ +0.% MoM

Observation: I will be in New York City next week (22-25 April) for a conference organized by the CUNY Bildner Center. Thus, it will be impossible for me to produce and distribute Brazil Focus on 24th April. So, there will be a two-week accumulation and the next issue will be sent out on 1st May.

1 - POLITICS

1.1 – New Datafolha poll

Datafolha conducted its latest poll on 9-10 April among 2,834 voters with a two-point margin of error. The results were published in the Sunday, 12th April edition of the FSP. The previous poll was conducted on 16th March. This time Datafolha conducted its poll BEFORE the large street protest demonstrations on Sunday, 12th April. The previous poll was conducted AFTER the large street protest demonstrations on Sunday, 15th March.

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This apparent “stabilization” of Pres. Dilma’s approval rating is no reason for the President and the PT to “rejoice”: 1) Because her approval rating (13%) is one of the lowest on record – surpassed only by Pres. Fernando Collor in August 1992 (on the eve of his impeachment by the Chamber of Deputies) ➔ 9%; and Pres. Itamar Franco with 12% in November 1993 (during the Budgetgate scandal). Pres. Fernando H. Cardoso also had a 13% approval rating in September 1999 (when the impact of the devaluation of the Real impacted Brazil’s consumers; and 2) her negative rating (60%) is
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pulverized within all sectors – by region, by gender, and levels of income and education. No longer is the Northeast region and the lower income/education levels decidedly pro-Dilma.

Equally alarming is the “pessimism” of those interviewed 1) 58% said that Brazil’s economic situation will get worse; 2) 78% said that inflation will get worse; and 3) 70% said that unemployment will increase.

Nearly 2/3 of those interviewed (63%) feel that Pres. Dilma should be impeached. However, only 37% knew that if Dilma were impeached that the Vice-President would take over. When those 37% were asked “Who is Brazil’s Vice-President”, only half responded correctly. Regarding the Petrobras corruption/bribery scandal, 57% said that “Dilma knew about this but let it happen”. If Dilma were impeached and new elections were held, 33% favored Sen. Aécio Neves (PSDB) while 25% favored Lula (PT).

1.2 – Pres. Dilma named new STF judge

On Tuesday, 14th April, Pres. Dilma finally named the 11th judge for the STF – this seat had been vacant since the resignation/retirement of Joaquim Barbosa in mid-2014. Rather than pick a judge from the top federal appeals court (STJ), she appointed a Civil Law professor from the UFPR – Luiz Edson Fachin – who is currently a visiting professor at King’s College in London and was a visitor scholar at the Max Planck Institute in Germany.

Photo: Priscila Fonseca/Gazeta do Povo

Professor Luiz Edson Fachin,

Senate President Renan Calheiros (PMDB-AL) said that the confirmation of Fachin by the Senate would be a “complex process”. Calheiros added that “As Senate President, I can not make any comments [for or against] this appointment”. Calheiros said that Pres. Dilma had advised him of this appointment before she officially released Fachin’s name – and that he had had a chance to converse with Fachin and was “favorably impressed”.

PMDB floor leader Sen. Eunício de Oliveira (PMDB-CE) said that in principle the PMDB had “no problems” with this appointment.
Born in Rondinha, RS in February 1958, Fachin could serve on the Supreme Court until 2028. He completed his BA in Law at the UFPR in 1980, and his MA (1986) and Doctorate (1991) at the PUC-SP. He joined the Law Faculty at UFPR in 1991.

Because Fachin has “linkages” with the PT-PR, this “party connection” will certainly be questioned during his confirmation hearing at the Senate CCJ. During the 2010 campaign, Fachin appeared in a video where he read a manifesto by “jurists” in favor of Dilma’s candidacy. Also present at this “event” were – current Vice-President Michel Temer, Justice Minister José Eduardo Cardozo, Casa Civil Chief Aloísio Mercadante, and Dilma’s Foreign Affairs Advisor Prof. Marco Aurélio Garcia – plus former Sen. Eduardo Suplicy.

Senate President Renan Calheiros (PMDB-AL) set the confirmation process to begin on 29th April.

1.2.1 – Renan reacts

Senate President Renan Calheiros (PMDB-AL) caused concern with the Dilma government vis-à-vis the confirmation of the President’s appointee to the STF – Luiz Edson Fachin. Dilma had been searching for a cabinet position to accommodate former Chamber President Henrique Alves (PMDB-RN) and decided to name him Tourism Minister, replacing Vinicius Lages (from Alagoas) – an appointee closely linked to Calheiros. For several weeks, it had been obvious that Renan was upset by the possibility of Lages losing his cabinet position. His reaction was to name Lages to be chief of staff with the Senate Presidency. To many observers, this appeared to be a “bad omen” – that Renan might work behind the scenes for the Senate to reject Fachin’s appointment.

1.2.2 – New Tourism Minister

On 16th April, former Chamber President Henrique Eduardo Alves (PMDB-RN) was sworn in as Dilma’s new Tourism Minister. Chamber President Eduardo Cunha (PMDB-RJ) had been pressuring Pres. Dilma to find a cabinet post to accommodate Alves. She decided on Tourism, in spite of the fact that the ouster of Vinicius Lage from Tourism antagonized Senate President Renan Calheiros (PMDB-AL) (See Item 1.2.1).

Photo: Paulo Ladeira/Folhapress
Henrique Alves & Pres. Dilma

1.3 – Petrolão & Lava Jato

The *Lava Jato* investigations closed in on the PT and its national treasurer, João Vaccari Neto on Wednesday, April 15, when the Federal Police arrested Vaccari because he was interfering with the investigations. The SRF identified “considerable, unjustified enrichment” by Vaccari son and huge deposits into the bank accounts of his wife and sister-in-law (Marice Correa de Lima). The Federal Police have an arrest warrant for Marice who is accused of operating a real estate scheme for money laundering with OAS. He is also accused of appropriating funds that the PT received from the Petrobras corruption/bribe scandal for his own use.

Former President Lula had been pressuring Pres. Dilma and the PT to get rid of Vaccari so as not to further “tarnish” the party’s image. On 15th April, finally the PT removed Vaccari from his position as national party treasurer.

*Photo: Paulo Lisboa/Folhapress*

João Vaccari Neto

Federal prosecutor Fernando Lima affirmed that Vaccari Neto was heavily involved in the Bancoop scandal some ten years ago (2005-2010) where a PT-CUT real estate scam ripped off all the investments of persons who purchased apartments in a “failed” construction project. At the time, Vaccari Neto was the president of Bancoop.

Pres. Dilma Rousseff has maintained a very notable silence regarding this “Vaccari Case” – leaving the contestation rhetoric to PT national president, Rui Falcão.

After three days of intense negotiations and many refusals, the PT finally decided that former federal deputy Marcio Macedo (PT-SE). The three names preferred by PT President Rui Falcão – PT Vice-President Alberto Cantalice, state deputy José Américo and PT militant João Batista – refused to accept this “mission”.

The accusations against Vaccari and his arrest are a major blow to the PT and to Pres. Dilma (and possibly for Lula) – another blood letting just when the PT and Dilma thought that their wounds resulting from the Petrobras corruption/bribery scandal were beginning to heal.
1.3.1 – Release of Petrobras 2014 financial balance set for 22nd April

On 16th April, Petrobras stated that it would release an “audited” financial balance for 2014 on 22nd April – just in time for a meeting of its Administrative Council that same day. As a result, most asked “audited by whom”? In early 2015, PriceWaterhouseCoopers (PwC) refused to sign an audit of Petrobras because this international auditing firm did not agree with the methodology Petrobras adopted to account for losses due to the corruption/bribery scandal.

As a result, PwC consulted the SEC regarding the “correct” audit methodology to be used. As of 17th April, the results of this consultation are not clear and whether PwC will accept a flat 3% write-off to account for the corruption due to overpriced contracts and kickbacks/bribes as proposed by Petrobras.

On 16th April, the members of the Fiscal Council of Petrobras requested that they have advance access to the financial balance sheet three days before its “official” release to the Administrative Council on 22 April – on Monday, 20th April. Reportedly, this request by the Fiscal Council has “alarmed” the new Petrobras administration.

⇒ Stay tuned!!

1.3.2 – OAS seeks Title 15 bankruptcy

Because OAS bond-holders in NY have sought relief at a NY court against OAS manipulation of its assets to avoid the same being in accessible to compensate bond default, in a contrary action, on 15th April OAS has now sought Title 15 bankruptcy protection at another NY court to “protect” its assets against bondholder “interference” with its “restructuring” efforts.

If US Judge Stuart M. Bernstein recognizes this OAS bankruptcy filing, OAS will receive the benefits of US bankruptcy law, including the so-called automatic stay that halts all lawsuits and prevents creditors from seizing OAS assets.

In March, OAS filed for Brazil’s equivalent of Chapter 11 bankruptcy protection in São Paulo. OAS affirms that it plans to sell its stakes in a shipbuilder and oil & gas, defense and environmental units – as part of its restructuring.

1.4 – SP train cartel

On 17th April, prosecutors denounced 11 executives for their involvement in the cartel of urban trains and metro cars in SP – including the ex-president of the CPTM procurement commission and employees of Alstom and Bombardier.

1.5 – Dep. Eduardo Cunha “goes to War”

Dep. Eduardo Cunha (PMDB-RJ) was elected President of the Chamber on the first round on 1st February. He defeated the PT candidate, Dep. Arlindo Chinaglia (PT-SP) – a 267-to-136 vote - in a
very aggressive and vicious campaign. Cunha vowed that he would retaliate against those who campaigned against him. One by one he is “taking them out”.

**First** – Cunha was able to oust Dilma’s government floor leader in the Chamber, Dep. Henrique Fontana (PT-RS). Fontana convoked a press interview to criticize Cunha and praise Chinaglia.

**Second** - Cunha took aim at members of the Executive Branch who campaigned against him – Dep. Pepe Vargas (PT-RS) and Casa Civil Chief Aloísio Mercadante (PT-SP).

**Third** - The two cabinet ministers who were working to organize new parties to steal deputies away from the PMDB – Gilberto Kassab (Cities) and Cid Gomes (Education).

Fontana was replaced by Pres. Dilma. Pepe Vargas was rejected by Cunha as a representative of the Dilma government in Congress and never received him. Cunha had the satisfaction to be the first to announce Vargas’ ouster. Vice-President Michel Temer (PMDB-SP) was designated by Pres. Dilma to take over the congressional relations task. See the 10th April edition of *Brazil Focus*.

Cid Gomes called Cunha a “dictator” and said that the Chamber had some 300 to 400 “blackmailers”. Gomes was convoked/invited to testify at the Chamber and was stupid enough to repeat his accusations. Again, Cunha was the first to announce Gomes’ demise.

One of the reasons for Dilma’s disastrous congressional relations was the “intervention” by Casa Civil Chief Mercadante. Apparently, he is the next on “Cunha’s List”. Lula also “suggested” that Dilma appoint Mercadante to an “embassy at great distance from Brasília”.

There is no “scenario” regarding how Cunha will retaliate against Kassab.

➔ Stay tuned!!

1.6 – Paulo Brossard dead at 90

On Sunday, 12th April, former STF minister Paulo Brossard de Souza Pinto died in Porto Alegre, RS. Brossard was born in Bagé, RS in October 1924. He obtained his BA in Law at the UFRGS in 1947. Before entering politics, he taught Law at the PUC-RS. Under the influence of Dep. Raul Pilla, Brossard joined the PL and was elected state deputy in 1954, 1958 and 1962. In 1966, he joined the MDB and was elected federal deputy. He ran for the Senate in 1970 but was defeated by the two ARENA candidates – Daniel Krieger and Tarso Dutra – as well as the large number of blank and null ballots.

When the voters who cast null/blank ballots in 1974 were mobilized in favor of the MDB in 1974, Brossard was elected Senator. In 1978, Brossard became the running mate of the MDB candidate for president – Gen. Euler Bentes. He ran for reelection for 1982 but was defeated by Dep. Carlos Chiarelli (PDS) due to the “tied, straight ticket” election rule imposed that year.
With the end of the military regime in March 1985, Pres. Sarney appointed Brossard to be the Chief Federal Prosecutor (PGR), and Justice Minister in 1986. In 1989, Sarney appointed Brossard to the Supreme Court. He reached the mandatory retirement age (70) in 1994.

During the 21-year military regime, Brossard was considered a “champion in favor of democracy. The Governor of Rio Grande do Sul, José Ivo Sartori (PMDB) declared three days of official mourning.

Photo: Rafael Andrade/Folhapress

Minister Paulo Brossard

1.7 – Campaign Finance

Nearly one year ago, when the STF was deliberating the question of campaign finance, the score was 6-to-1 in favor of declaring that campaign contributions from private sector firms unconstitutional, Judge Gilmar Mendes asked to “study the case further” [pediu vistas] and the case was taken off the Supreme Court agenda. Since then, Mendes has not returned the case to STF final deliberation and because of many negative comments about his “blocking” the STF decision, on 16th April he declared that Congress should make this decision about campaign finance and not be decided by a “judicialization” of politics. Mendes said “The Supreme Court should use ‘sandals of humility’ and let the well prepared political class in Congress decide this question”. Mendes is accused of blocking this STF decision (6 votes is already a majority) articulated with the “conservative forces” in Congress that are trying to approve a PEC regulating private sector campaign contributions. Apparently, Mendes will continue to block a STF decision indefinitely.

This is a good example of how a single judge on the STF can block a majority decision. However, a majority of STF judges could decide to bring this question back into deliberation by the full Supreme Court, thus breaking the block that Mendes has imposed on them. Such action would be
very rare indeed because of STF “corporatism” and respect for the individual prerogatives of STRF judges.

By comparison, in the US Senate, one individual senator had put a “hold” on the confirmation of any Presidential appointment. This behavior is usually respected by the other 99 senators.

1.8 – Chamber to install BNDES CPI

Yet another challenge for Vice-President Michel Temer ➔ a petition to install a CPI to investigate BNDES collected 200 signatures, 30 above the 170 necessary to create an Investigation Committee. This initiative was led by four Opposition parties – PPS, PSDB, DEM and PSB.

PSB and PPS floor leaders – Dep. Júlio Delgado (PSB-MG) and Dep. Rubens Bueno (PPS-PR) – announced this fact during deliberations of the Petrobras CPI in the Chamber – during the testimony by BNDES President Luciano Coutinho – much to the latter’s consternation.

1.9 – TCU condemns “creative accounting”

On 15th April, the TCU (Brazil’s External Accounting Court) unanimously approved a report that condemned the “creative accounting” practiced by Pres. Dilma and members of her government in 2012 and 2013 – that were of “criminal acts”. These “fiscal maneuvers” were perpetrated to artificially produce primary surpluses. The TCU report accused the STN (National Treasury) – under the command of Arno Augustin – of delaying/postponing some R$ 40 billion budget appropriations to federal institutions (Banco do Brazil, CEF, BNDES, etc.) until the next budget year that obliged these units to borrow funds on the money market.

According to the TCU, this was a clear violation of the Fiscal Responsibility Law and could be considered a “Crime of Responsibility”. The TCU gave those involved 30 days to provide “explanations” ➔ 17 persons, including: Arno Agustin (then STN chief), Guido Mantega (then Finance Minister), Alexandre Tombini (current Central Bank President), Aldemir Bendine (then BB President), Nelson Barbosa (then Planning Minister) and current Labor Minister Manoel Dias.

Opposition deputies and senators seized this TCU report that they feel constitutes a “crime of responsibility” that directly involves Pres. Dilma Rousseff – that could become grounds for impeachment. The TCU will judge Dilma’s public accounts for 2014 on 17th June. It is possible that the TCU might reject Dilma’s accounts. As seen above, the accounts for January and February 2014 were impacted by the “creative accounting” practiced in late 2013 to manipulate a primary surplus for 2013.

2 – FOREIGN RELATIONS & TRADE

2.1 – Pres. Dilma ➔ Washington

During the Summit of the Americas in Panama (10-11 April), Brazilian and American diplomats set 30th June for a “short working visit” by Pres. Dilma to Washington. It was decided that a formal
two-day State Visit might be possible in 2016. However, the agendas of both presidents are “complicated” in 2016 – a presidential election in the US in November and the Olympic Games in Rio de Janeiro in July.

2.2 – Saab signs contract with Embraer

As counterpoint to the story reported in last week’s Brazil Focus regarding the cost over run (being investigated by federal prosecutors) on the contract with Saab AB to deliver 36 supersonic Gripen NG fighter planes to FAB for US$ 5.44 billion, the Swedish defense group said on 14th April that it had signed an agreement with Embraer establishing a joint management partnership of the FX-2 project with FAB.

In the 2nd semester of 2015, a group of Embraer engineers and technicians go to Sweden to receive initial training in the maintenance and development work on the Gripen NG.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – IBC-Br increased in February

On 15th April, the Central Bank announced its index of economic activity (IBC-Br) for February ⇒ +0.36%, after a decline of -0.11% in January. Compared with February 2014, the IBC-Br posted a retraction of -3.16%. This “positive blip” surprised most analysts. The Central Bank affirmed that 2015 should close with a -0.5% retraction of the IBC-Br.

5.2 – April inflation

On 17th April, IBGE announced the IPCA-15 mid-month inflation index ⇒ +1.07%, down from +1.24% in mid-March. The April IPCA-15 result was slightly higher than the median +1.02% forecast by 37 economists surveyed by Bloomberg News. The 12-month accumulation of the IPCA-15 is now +8.22% -- the highest 12-month accumulation since January 2004.

In spite of this “decline”, most analysts predict that Copom will increase the basic Selic rate by at least 50 bps at its 28-29 April meeting.
HOWEVER ➔ two banks (Santander and Morgan Stanley) predict that because Brazil should suffer its worst GDP retraction in 25 years, Copom will have little choice but to lower the Selic rate to stimulate the economy. Among 17 banks surveyed by Bloomberg news, only the above two saw a rate-reduction strategy as necessary.

5.3 – Consumer defaults increased in first quarter

According to Serasa Experian, consumer defaults in 1st Q/2015 increased by +15.8% compared to the same period in 2014 – mostly due to rising interest rates, higher inflation and a weaker job market.

While Brazilians have been less willing to assume new debts, they have found it harder to pay off existing loans. Consumer confidence is at the lowest level since the Wall Street “blowout” in late 2008 while Brazil’s GDP is expected to post a negative result in 2015 with a recession provoked by the austerity program that is reducing federal government spending.

5.4 – 2015 Forecast ➔ -0.9% GDP

On Wednesday, 15th April, the Dilma Government transmitted its “Guidelines” for the 2016 annual budget to Congress. This proposal estimated that Brazil would have a recession in 2015 with a -0.9% GDP retraction, but that in 2016, GDP should expand by +1.3%. Inflation in 2015 was forecast at +8.2% and +5.6% in 2016. The primary surplus for 2015 was estimated at +1.2% and +2.0% in 2016. The nominal deficit should reach -5.16% of GDP by the end of 2015. These are the numbers inserted in the budget guidelines proposal by the Finance Ministry team.

5.4.1 – Lagarde mentions Brazil

On 16th April, during a press conference in Washington, IMF Director-General, Christine Lagarde affirmed that the emerging economies are not doing as well as they could, and cited Brazil as a negative example of this group – “Some nations are decelerating more than others. Brazil, for example is stagnated and the projection is slightly negative for this year”.

5.5 – Retail sales down in February

On 14th April, IBGE released data on retail sales in February ➔ -0.1% MoM and -3.1% YoY. The 25 economists polled by Reuters were “off the mark”. Their median prediction was +0.3% MoM and ranged from -1.0% to +1.2%