Brazil Focus –
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Weekly Report
April 23-29 2016

Looking Ahead ➔ What to watch for?

- 23rd April -- Municipal holiday in Rio de Janeiro ➔ São Jorge
- 1st May -- Labor Day in Brazil [National Holiday]
  ➔ Pres. Dilma will participate in a CUT rally in SP
- 4th May -- Trade balance for April ➔ US$ ___ billion
- 6th May -- Central Bank to announce FX flow in April
- 6th May -- IBGE ➔ March Industrial Production
- 9th May -- FGV: April IGP-DI ➔ +___% versus +___% in March
- 9th May -- IBGE to announce unemployment in 1st Q/2016 ➔ ___%
- 9th May -- Anfavea ➔ ____ auto units produced in April, % YoY
- 9th May -- IBGE to post IPCA for April ➔ +___%, versus +___% in March
- 12th May -- IBGE: industrial employment in March ➔
- 13th May -- Brazilian Abolition Day (slaves freed 1888), Afro-Brazilians don’t honor
- 13th May -- WEF, HCI-Human Capital Index to be released, Brazil ranked ____
• 16th May -- IBGE, retail sales for 1st Q/2016 \( \Rightarrow \) ___% QonQ
• 16th May -- Brazilian Am. C of C in NY, Breakfast Seminar – Harvard Club
• 16th May -- FGV-Ibre, Brazil's GDP retracted -___% in 1st Q/2016
• 16th May -- IGP-10 \( \Rightarrow \) +___%, \textit{versus} +____% in April
• 23rd May -- Central Bank to announce March IBC-Br \( \Rightarrow \) -____% MoM
• 23rd May -- IBGE: April PME unemployment \( \Rightarrow \) ___%
• 23rd May -- Caged data \( \Rightarrow \) ______ jobs lost in April
• 23rd May -- IBGE: IPCA-15 \( \Rightarrow \) +___% \textit{versus} +____% in April

1 - POLITICS

1.1 – Impeachment – Senate deliberations

The calendar of deliberations in the Senate was prepared by the Impeachment Committee President, Sen. Raimundo Lira (PMDB-PB) – IF Senate President Renan Calheiros (PMDB-AL) does not interfere to prolong the deliberations of the Senate Special Committee:

- **Monday, 25th April** – 21 Committee members confirmed [elected] by the Senate
- **Tuesday, 26th April** – Committee elected President and Reporter
- **28th April** – Authors of impeachment brief presented arguments to Committee
- **29th April** – The AGU presented the defense of Dilma to the Committee
  - Agriculture Minister Kátia Abreu & Finance Minister Nelson Barbosa also participated
- **2-3 May** – Period for more presentations, analyses and debate by the Committee
- **Wednesday, 4th May** – Committee Reporter to present his Report to Committee
- **Thursday, 5th May** – The AGU to make final defense of Dilma against impeachment
- **Friday, 6th May** – Committee to vote on this Report, 11 votes needed to approve
- **Wednesday, 11th May** – The full Senate to vote on Committee Report, 41 votes needed to approve

One Senator indicated by the PMDB decided to opt out of this role \( \Rightarrow \) Sen. José Maranhão (PMDB-PB) – because he is the President of the Senate CCJ that might be the target of some appeals
In his place, PMDB floor leader Eunício de Oliveira (CE) indicated Sen. Daniel Berger (SC). The other 21 names remain as reported in the 22nd April issue of \textit{Brazil Focus}.

One-third (seven) senators on the 21-member Senate Impeachment Committee are under investigation at the STF \( \Rightarrow \)

- Gleisi Hoffmann (PT-PR)
- Simone Tabet (PMDN-MS)
- Lindbergh Farias (PT-RJ)
- Welington Fagundes (PR-MT)
- Fernando Bezerra (PSB-PE)
- Vanessa Grazziotin (PCdoB-AM)
- Gladson Cameli (PP-AC)

On Tuesday, 26th April, the Committee met to elect its President and Reporter. Sen. Raimundo Lira (PMDB-PR) was elected with no opposition. \textbf{BUT} the election of Sen. Antonio Anastasia (PSDB-MG) was contested by the government bloc Senators who complained that he was “linked” to Sen.
Aécio Neves (PSDB-MG) who had been defeated by Dilma Rousseff in October 2014 – and therefore he would be a “biased” reported. PSDB floor leader Sen. Cássio Cunha Lima retorted that these government bloc senators should have also contested the election of PMDB Senator Raimundo Lira because his party would be directly benefitted by the impeachment of Pres. Dilma because Vice-President Michel Temer is PMDB.

After two hours of heated discussions, Sen. Antonio Anastasia (PSDB-MG) was elected by a 16-to-5 vote.


1.1.1 – Pres. Dilma appealed to regional organizations

After her “suave” 8-minute speech to the UN General Assembly on Friday morning, 22nd April, Pres. Dilma visited the MOMA where she viewed an exposition of works by Degas and had lunch at the MOMA cafeteria. Later that afternoon, she had an encounter with foreign correspondents [again] where she complained bitterly that she was the victim of a “golpe” or “coup” by Brazil’s Congress. She also stated that she would appeal to Unasul and Mercosul asking that Brazil be suspended for having violated the “democracy clause” in the bylaws of each organization – as Mercosul did in 2012 when it suspended Paraguay because of a “rapid fire” 48-hour impeachment of Pres. Fernando Lugo. Apparently, Pres. Dilma was irate because three judges on Brazil’s Supreme Court spoke out forcibly “that the impeachment process in Brazil was totally democratic and within the norms of Brazil’s 1988 Constitution”.

A majority of the foreign press did not “swallow” the allegation by Pres. Dilma that the impeachment process is a “golpe” – but there were some exceptions.


Pres. Dilma received a very rapid [negative] answer from Unasul the next day, Saturday, 23rd April. Meeting in Quito, Ecuador, Unasul foreign ministers rejected a motion “repudiating” the impeachment process in Brazil – presented by Bolivia and Venezuela. Colombia, Peru, Chile, Argentina and Paraguay voted against this proposal. The government of Pres. Tabaré Vazquez in Uruguay is divided, but most assume that Uruguay would not vote to suspend Brazil from Mercosul.


Because Argentina and Paraguay were negative at this Unasul meeting, probably they would also be negative on any proposal to suspend Brazil during a Mercosul meeting.

Want more?? On 25th April, Parlasul (the Mercosul Parliament) met in Montevideo to commemorate the 25th anniversary of the creation of this common market. However, when the Parlasul president, Argentine deputy Jorge Taiana (linked to Cristina Kirchner), affirmed that Brazil was suffering a “parliamentary golpe” via the “forced use of the Impeachment Law”, 17 of the 20-member
Brazilian delegation walked out in protest. Only three Brazilian deputies remained ➔ Ságua Moraes (PT-MT), Benedita da Silva (PT-RJ) and Jean Wyllys (PSOL-RJ). Dep. Benito Gama (PTB-BA) declared that “Mercosul can’t intervene in the internal affairs of Brazil by calling impeachment a ‘parliamentary golpe’ – that’s unacceptable”.

On 29th April, the Folha de São Paulo and O Globo analyzed the editorials of TEN international newspapers and concluded that they had not incorporated the accusation that “Pres. Dilma is the victim of a golpe”.


1.1.2 – “Diretas Já”? 

This idea of convoking elections (Presidential and/or general elections) for October 2016 was launched by Lula because he is afraid that by 2018 he might be in jail or totally discredited by the Lava Jato investigations (once he loses his special legal status after Dilma’s impeachment in concluded). This idea was launched by a small group of senators and was seen as a ploy against Dilma’s impeachment. CUT and the MST are negative, but the MTST is positive.

On 26th April, Michel Temer called this initiative an “attempted golpe”. He dispatched emissaries to the STF to sound out the judges who considered this idea to be unconstitutional.

1.1.3 – Dilma interviewed on CNN

After a very “pro-Dilma” 9-minute interview with Glenn Greenwald last week (18th April), CNN Chief Correspondent for International Affairs, Christiane Amanpour, traveled to Brasília to conduct an interview with Pres. Dilma Rousseff on 27th April.

Amanpour asked Pres. Dilma if she thought that she would maintain her mandate in the final Senate vote ➔ “In addition to thinking ‘yes’, I will fight for survival, not only my mandate but because I am defending the democratic principal that rules Brazilian political life”.

http://politica.estadao.com.br/noticias/geral,entrevista-a-cnn-dilma-minimiza-impeachment-e-fala-de-reformas-estruturais,1785748
http://g1.globo.com/politica/processo-de-impeachment-de-dilma/noticia/2016/04/ninguem-pode-sofrer-impeachment-por-impopularidade-diz-dilma-cnn.html

Vice-President Michel Temer was interviewed by CNN correspondent Ms. Shasta Darlington on 25th April.

1.2 – Lava Jato investigation

On Monday, 25th April, STF Judge Teori Zavascki decided to “liberate” André Esteves from his “house arrest” and allow him to go back to work at “his” BTG Pactual investment bank. However, Zavascki imposed restrictions -- no international travel.

Esteves was arrested under a warrant issued by the STF in late November 2015 together with Senator Delcídio do Amaral (then PT-MS) accused of witness tampering and obstruction of justice. They had attempted to “buy off” former Petrobras executive Nestor Ceveró to avoid his plea bargaining by obtaining a habeas corpus that would allow his to flee to Paraguay and then to Spain.

Amaral has already done plea bargaining that allowed his release from prison to house arrest, and now Esteves is “free” to return to the BTG.

On 26th April, the STF denied a habeas corpus request for Marcelo Odebrecht, but two ex-directors at Odebrecht – Mário Faria da Silva and Rogério Araújo were released to be under house arrest and ordered to wear electronic ankle bracelets.

Mendes Junior, one of the first construction firms revealed in the Petrobras cartel corruption/bribe investigation, is accused of coordinating these activities and the CGU-Internal Control ruled on 28th April that this company will be prohibited from participating in any contracts with the federal, state and municipal governments for two years. This might become a “sentence for bankruptcy” for Mendes Junior.

Ms. Pimentel – On 28th April, Gov. Fernando Pimentel (PT-MG) appointed his wife, Carolina de Oliveira Pimentel, to be state Secretary of Labor and Social Development, replacing André Quintão. This appointment gives Ms. Pimentel the status of Foro Privilegiado. The MG first lady is accused of involvement of her firm Oli Comunicações in illicit campaign contributions for Pimentel’s election campaign in 2014 in association with the Pepper ad agency owned by Danielle Fonteles who has already done plea bargaining testimony in the Federal Police Operation Acrônimo. One of Pimentel’s close associates in the 2014 election campaign, Benedito Rodrigues de Oliveira Neto [Benê], is accused of being the “operator” of this scheme and has already been arrested by the Federal Police. Ms. Pimentel’s arrest seemed eminent because she is under investigation by the Federal Police.

With this appointment, Ms. Pimentel could only be prosecuted by the TJ-MG (state supreme court) and not by a first level federal judge or at the STJ. Detail: The TJ-MG judges were all appointed by Pimentel and previous governors of MG. This was the same artifice that Pres. Dilma used in an attempt to give Lula Foro Privilegiado by appointing him to the Casa Civil – BUT STF Judge Gilmar Mendes suspended this appointment, alleging that this was a desvio de função and obstruction of justice – an attempt for Lula to escape prosecution by the Lava Jato investigation.


1.3 – Michel Temer - Articulations
Ever since the Chamber of Deputies approved the “admissibility” of impeachment on 17th April, Vice President Michel Temer has (quite discretely) held meetings with many politicians (from diverse parties) and representatives from the private sector and labor union centrals.

On Monday, 25th April, he received private sector representatives and on Tuesday, 26th April, he received the labor union centrals ➔ Força Sindical, UGT-União Geral dos Trabalhadores, CSB-Central Sindical Brasileira and NCST-Nova Central Sindical de Trabalhadores. The CUT-Central Única dos Trabalhadores (linked to the PT) was not present.

The agenda (proposals) of these labor union leaders included ➔ no changes in the minimum retirement age in any social security reform (this is part of Temer and the PMDB’s “S Bridge to the Future” agenda), opposition to any changes in Brazil’s labor legislation (no reduction of labor rights), in addition to: 1) readjust income tax brackets; 2) renegotiation of the internal debt; 3) reinforce the role of the Labor Ministry; 4) lower consumer interest rates; 5) more investments in commerce and industry; and 6) Include representatives of capital and labor on the Central Bank’s Copom. The first four “demands” would require increased investments of the federal government – not very adequate for a period of “fiscal austerity”.

1.3.1 – Bring the PSDB on board?

Except for Sen. José Serra (PSDB-SP) who wants to garner a cabinet appointment in the Michel Temer government, many PSDB leaders have been reluctant to “actively” participate [receive appointments] but only support this government in its coalition in Congress.

In order to bring the tucanos on board, Vice-President Michel Temer is negotiating policy proposals that they like, such as proposing the end of immediate reelection for presidents, governors and mayors. Sen. Aécio Neves (PSDB-MG), the national President of the PSDB is elaborating a list of “emergency measures” that could (should) be adopted. Former President Fernando H. Cardoso (PSDB-SP) affirmed that the PSDB should actively participate in the Michel Temer government.

➔ Stay tuned!!

1.3.2 – Cabinet restructure

V-P Michel Temer is studying the possibilities for reducing the number of cabinet posts from 32 to perhaps 24. Also, he is considering mergers and/or “reincorporation” of some ministries – or example, MDIC would be incorporated into the Planning Ministry, minus Foreign Trade that would be incorporated into a more robust Ministry of Foreign Relations. This new, more robust Itamaraty is being offered to Sen. José Serra (PSDB-SP). This more “robust” Foreign Ministry would “turn back the clock” to the period when Itamaraty’s role included foreign trade almost exclusively.

1.4 – A “parallel” government???

In Brasilia, a “version” [rumor] is circulating whereby once Pres. Dilma’s presidential mandate is suspended for 180 days as of the Senate vote, on 11th May, she would create a “parallel” government with her former ministers still on the federal payroll. This idea might sound like a “pipe dream” – but in Brazil such “surprises” [creativity] do happen.
How would this work? Dilma’s ex-ministers would have the right to four months of “quarantine” (with salaries) while they look for a new job. This would be [quickly] determined by the Presidential Public Ethics Commission (before 11th May).

This type of “quarantine” already exists for positions in the economic/financial sector ➔ Finance Minister, Central Bank President, Central Bank Directors, who are prohibited from taking jobs in the private financial sector for six months – but without a continuation of their public salaries during this period. Most of these persons under a six-month quarantine are employed in the academic sector.

If this “idea” is installed by the Public Ethics probably the next day someone or some group will fill an ADIn at the STF to contest the constitutionality of this measure.

1.5 – “Last Minute” measures

The Dilma government is contemplating a series of “last minute” measures in an attempt to guarantee the continuation of certain programs and “complicate” [disrupt, make more difficult] the attempts of the new Michel Temer government to process a program of “fiscal austerity” and some badly needed reforms.

One example is the MP signed by Pres. Dilma on 28th April extending the “Mais Médicos” program that is been criticized by the Brazilian Medical Doctors’ Association – because the foreign trained doctors – because Pres. Dilma ruled that they would be exempt for any requirement to revalidate their diplomas. Reportedly, there have been strong pressures from the 4,058 municípios that have received these 18,240 doctors ➔ 11,429 Cubans, 1,537 other foreign-trained doctors (including Brazilians plus 5,274 Brazilians with Brazilian medical degrees.

Pres. Dilma will participate in a Labor Day rally organized by CUT in São Paulo on Sunday, 1st May. Reportedly, several positive “goodies” will be announced. ➔ Stay tuned!!

1.6 – State debts with federal government

In 1997 and 198, then Finance Minister Pedro Malan, alleviated the problem of debts of state governments with private banks by the incorporation of these debts by the federal government that permitted these state governments to pay off this operation over 30 years via monthly payments of up to 13% of the state’s revenues.

In January 1999, the new governor of MG, Itamar Franco (PMDB) declared that his state did not have enough revenues to continue paying off this debt and defaulted on some international loans. This caused a run on the Real and the Central Bank refused to let the Real “float” and then President FH Cardoso sacked the Central Bank (President and Directors).

Now in 2006, the states complain that they are being suffocated by the obligation to make these monthly payments because “compound interest” is built in. Several states have obtained injunctions from the STF to pay via simple interest calculations and the STF was to have decided this major “fiscal
question on 27th April. BUT – on a 7-to-3 vote, the STF postponed its decision for 60 days – a nice entrance “present” for Michel Temer.

2 – FOREIGN RELATIONS & TRADE

Nothing this week.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – Petrobras to sell Liquigás

In an effort to balance its fiscal situation, Petrobrás is selling off many of its assets. To this end, Petrobrás is preparing to receive proposals for the sale of its cooking gas (LGP) subsidiary – Liquigás – next week. This sale should yield around US$ 1 billion.

5 - ECONOMICS

5.1 - Copom

Copom met on 26-27 April and decided to maintain the basic Selic rate at 14.25%. According to Anefac, between March and April, the average interest charges increased 7.67% → 7.89% per month!!!

5.2 – April Inflation

On 28th April, the FGV released its data for the IGP-M → 0.33%, down from the +0.51% posted in March. In April 2015, the IGP-M was +1.17%. The accumulation in 2016 is +3.30% and the 12-month accumulation is now +10.63%

5.3 - Unemployment

On 29th April, IBGE released unemployment data for 1st Q/2016 (January-February-March) from its continuous PNAD → 10.9% with 11.1 million unemployed. In the 4th Q/2015, unemployment was9.0% and was 7.9% in 1st Q/2015.

5.4 – March Public Accounts
Public Debt – On 25th April, the STN stated that Brazil’s public debt had increased from R$ 2.819 trillion in February to R$ 2.886 trillion in March (+2.38% MoM). This increase involved the issue of R$ 52.22 billion in debt bonds with only R$ 2.61 billion bonds retired – or a net debt issue of R$ 49.61 billion.

Primary Deficit – The federal government posted a negative primary result of -R$7.9 billion in March and a -R$ 18.2 billion deficit in 1st Q/2016. The 12-month accumulation is now a -R$ 137.5 billion deficit. The social security deficit increased by +46% in the first quarter. This deficit is more or less “out of control” and demands an urgent reform to reduce this deficit in the very short term.

This was the first time since 1997 that the federal government accounts posted a deficit in the first quarter.