Brazil Focus –
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Weekly Report –
May 9-15 2015

Looking Ahead ➔ What to watch for?

- 19th May – Full Senate confirmation vote on Luiz Fachin for STF
- 19th May – IBGE: IPCA-15 ➔ +0.% *versus* +0.% in April
- 20th May – Caged data ➔ new jobs created in April
- 21st May – IBGE: April unemployment ➔ %
- 25th May – Memorial Day observed [holiday in the US]
- 27-30 May – 32nd LASA Congress in San Juan
- 27th May – SRF ➔ R$ billion tax collections in April
- 27th May – Protest march on Brasilia in favor of Dilma’s impeachment
- 26-27 May – 191st Copom Meeting ➔ Selic Rate %
- 29th May – IGP-M for May ➔ %
- 29th May – IBGE announced GDP for 1st Q/2015 ➔ % (QonQ) & % YoY
- 29th May – Central Bank to announce public account data for April
- 1st June – Trade surplus for May ➔ US$ million
- 2-3 June -- 191st Meeting of Copom ➔ Selic Rate
- 3rd June -- IBGE – IP data for April ➔ % MoM, % MoM in March
- 3rd June -- Italian Regional Administrative Court to deliberate the case of extradition of Henrique Pizzolato
- 3rd June -- Central Bank ➔ US$ billion FX flow in May
- 4th June -- Corpus Christie – national religious holiday
- 5th June -- IBGE to release May unemployment data (new PNAD methodology
- 5th June -- FGV to announce IGP-DI for May, %, versus % in April

1 - POLITICS

1.1 – Government & Opposition vote on MP 665 & MP 664

The first MP to implement the fiscal reform of Dilma 2.0 (MP 665) was approved by a very close vote on 7th May (252-to-227) – with “betrayals” on both sides. Dilma’s new coordinator of “Congressional Relations” – Vice-President Michel Temer (PMDB-SP) used very traditional tactics (the distribution of 3rd and 4th echelon federal appointments) to convince wavering government bloc deputies to vote for this MP. In spite of Temer’s “articulations”, ALL 19 PDT deputies voted against this MP. The breakdown was as follows:

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* - PTC, PTdoB, PTN, PEN, PHS, PMN, PRP, PRTB & PSDC.

Dissidents -- Of the total of 303 deputies in the so-called “government bloc” (9 parties), 25% voted against this MP. Of the total of 186 deputies in the “Opposition” (9 parties), 19% voted in favor of this MP. Even it all 19 abstainers in the government had voted “Yes” – without the 33 Opposition “Dissidents” who voted “Yes”, this MP would have been defeated ➔ With a little help from your “friends”.
Thus, Michel Temer now has a “road map” (or “scorecard”) to help in preparation for the important on the second MP (number 664) that will implement the fiscal austerity adjustment. Reportedly, Temer is concentrating his efforts (distributing political appointments) to deputies from the PP and PRB in an effort aimed at securing approval of MP 665.

⇒ Stay tuned!!

1.1.1 – Chamber approved fiscal adjustment measure

Michel Temer’s “legislative liaison” techniques paid off well on 13th May, when the Chamber approved MP 664 -- modifications on pension benefits for survivors and stiffer rules for sickness benefits – by a 277-to-178 vote (a 99-vote margin versus a 25-vote margin last week). In spite of Temer’s articulations, the PDT (of Labor Minister Manoel Dias) again voted against the government.

Approval of MP 664 also involved some modifications on the basic text that – together with MP 665 would have save some R$ 18 billion to contribute to the primary surplus target in 2015. First, the social security contribution time (for the death benefit for survivors) was reduced from 24 to 18 months. Second, the MP 664 reporter, Dep. Carlos Zarattini (PT-SP) removed an article that reduced the value of the death benefit and maintained the total benefit. Third, to receive the full pension benefit, the spouse must be at least 44 years old, and married to the deceased for at least two years. Fourth, if the spouse is younger than age 44, he/she would receive the benefit for between 3 and 20 years. The government version of this article reduced the benefit to 50% of the full benefit and added an additional 10% for each dependent (up to five dependents).

Want more? Dep. Arnaldo Faria de Sá (PTB-SP) presented an amendment that would alter the fator previdenciário to an 85/95 calculation (for the worker to receive his/her full benefit ⇒ the sum of age and contribution time for women would be 85 (for example, age 55 and 30 years of contribution), and 95 for men (for example, age 60 and 35 years of contribution. However, there could be some different calculations – for example, if a woman wanted to retire at age 53, she would have to had contributed 32 years (since age 21), or at age 50 with 35 years of contribution (since age 15). This amendment was approved on 13th May by a very close 232-to-210 vote (a 22-vote margin) and was another defeat for Temer and Dilma 2.0. This change would go into effect in 2016. However, this measure must still be approved by the Senate and sanctioned by Pres. Dilma. Most probably she will veto Faria de Sá’s amendment.

The fator previdenciário was approved in Pres. Cardoso’s second term (1999-2002) as an effective measure to prolong the “premature” retirement of workers and saved considerable funds. In the subsequent PT governments – Lula (2003-2010) and Dilma (2011-2015) – the PT did not propose to alter the fiscal economy of this rule, even though before 2003, the PT ranted against this “anti-worker” rule.
Protests against MP 644

On MP 665, the PMDB had 5 “No” votes (vs. 10 on MP 665), the PP had 12 “No” votes (vs. 17 on MP 665), the PR had one “No” vote (vs. 5 on MP 665), the PRB had zero “No” votes (vs. 8 on MP 665), and the PSD had the same 6 “No” votes (as on MP 665). On MP 664, the PT had 10 abstaining. Although the PSDB was the “author of the fator previdenciário, all of its 45 deputies voted in bloc to modify this rule – as an Opposition party in 2015. See ➔ http://congressoemfoco.uol.com.br/noticias/como-os-deputados-votaram-a-mp-sobre-pensao-por-morte/

On 14th May, Senate President Renan Calheiros (PMDB-AL) affirmed that the Upper House would accompany the Chamber and approve the same modifications on the fator previdenciário. Thus, the only alternative for Pres. Dilma would be to veto this amendment.

After suffering this defeat in the Chamber, Pres. Dilma said that her government would formulate a new retirement policy. The press speculated that Pres. Dilma would probably veto these changes that over the next 35 years would increase the social security deficit to R$ 2.5 trillions.

Finance Minister Joaquim Levy affirmed that if the reduction of the fiscal reform by the Chamber is not “corrected” probably taxes would have to be increased.

1.2 – Senate CCJ approved Fachin

On 12th May, after more than 11 hours of testimony and cross examination, the Senate CCJ approved the appointment of Prof. Luiz Edson Fachin to replace Joaquim Barbosa on the Supreme Court – by a 20-to-7 vote.

The main criticisms were: 1) that Fachin illegally continued to practice law in Paraná after he was appointed state prosecutor; 2) that he defended to occupation of private property by landless
(MST) militants; 3) that he mobilized lawyers in Paraná in favor of the PT in the 2010 and 2014 elections; 4) that he is in favor of “polygamy”; and 5) he is against the “judicialization” of politics (where the TSE/STF “dictate” new elections and party rules and “usurp” the role of Congress.

While Fachin was a public prosecutor in Paraná, he maintained a legal consultancy with Copel (the state-owned electric company) and received R$ 366,000,00 in 2003. Later, as a state prosecutor, he defended Copel in an R$ 18 billion suit versus the American firm El Paso.

The Dilma government wanted to take advantage of the “positive momentum” and that this case to an immediate vote by the full Senate the next day – 13th May -- because several PSDB Senators were attending an event in New York this week. However, Senate President Renan Calheiros (PMDB-AL) insisted that this vote would be held one week later – on 19th May.

Fachin’s “performance” was considered “good” – even by some of his opponents. His allies contracted three groups to help him prepare for the CCJ cross examination – 1) Medialogue that worked on the presidential campaign of Sen. Aécio Neves in 2014; 2) a “designer” from the Pepper agency that worked on Dilma’s 2014 campaign; and 3) the Samuel Figueiredo press consultancy F7 Comunicação, specialists in “crisis management”.

Because Fachin has had an “intimate” relationship with João Paulo Stédile and the MST, the Bloco Ruralista in Congress is actively opposing his appointment to the STF.

The press reported that Renan was adroitly “working behind the scenes” against Fachin, especially with PMDB senators. The Dilma government had forecast a “massive” victory (61 votes) for Fachin, but is “revising” its calculations. Fachin must be approved by an absolute majority of the full Senate (4 votes) – by a secret ballot. Thus, abstentions and absences do not reduce this quorum. Detail: NO Supreme Court appointment has been rejected by the Senate since 1893!!

1.3 – Senator Luiz Henrique dead at 75

Senator Luiz Henrique da Silveira (PMDB-SC) died in Joinville, SC on Sunday afternoon 10th May [Mother’s Day] of a heart attack.

Luiz Henrique was born in Blumenau, SC on 25th February 1940 and began his political activities in 1970 when he was a MDB candidate for state deputy and became President of the Joinville MDB in 1971 – where he was elected Mayor three times. In 1973, he became state deputy as an alternate on the MDB list. He held a Law degree from the UFSC (1965).

LHS (as he was known) was elected federal deputy in 1974 and Mayor of Joinville in 1976. In 1982, he was again elected federal deputy and reelected in 1986, 1990 and 1994. In 1996, he was again elected Mayor of Joinville and reelected in 2000.
During the National Constituent Assembly (ANC), LHS was “indicated” by the ANC President Dep. Ulysses Guimarães (PMDB-SP) to be the PMDB floor leader, but he was defeated by Senator Mário Covas (PMDB-SP). As a consolation prize, LHS was appointed Minister of Science & Technology by President Sarney and replaced Renato Archer.

In 2002, LHS was elected Governor of Santa Catarina in a “reversal” in hotly contested second round runoff election and defeated Gov. Esperidião Amin (PP) who ran for reelection. In 2006, Silveira was reelected governor. In 2010, he was elected Senator and in February 2015 offered a “token” challenge to the reelection of Sen. Renan Calheiros (PMDB-AL) as Senate President.

Luiz Henrique’s ancestor Dom Luiz Maurício da Silveira was the governor of the then capitania of Santa Catarina (1805-1817). President Dilma Rousseff and Vice-President Michel Temer attended the funeral of Senator Luiz Henrique in Joinville on 11th May.

1.4 – Brazil declines 21 ranks on WEF survey

On 13th May, the World Economic released its data for its Human Capital Index (HCI) 2015 where “plunged” down, 57th to 78th rank. Finland, Norway, Switzerland, Canada & Japan were the “top five” on this 2015 HCI. The US was ranked 17th and the UK was 19th.

In Latin America, Chile was the highest ranked (45th) followed by Uruguay (47th), Argentina 49th) and Peru (61st).

Among the Brics, Brazil was surpassed by Russia (26th) and China (64th). Brazil’s “problem” area was education  

1) performance of students under age 15 (91st),  
2) the quality of primary schools (109th), and  
3) the quality of education for the 15-24 age group (110th).


1.5 - Petrolão

A group of 13 banks and financial institutions led by Itaú Unibanco filed a law suit in New York on 11th May against two units of the Grupo Schahin engineering and oil conglomerate to recover US$ 371 million in overdue principal and interest on loans. This lawsuit come after Schahin sought protection from creditors in Brazil and the US and fired 2,500 workers after this firm’s involvement in the Petrolão corruption/bribery scandal impeded its efforts to refinance some US$ 2.1 billion in debt.
On 13-14 May, the CEO of the UTC Engineering Group turned states evidence in plea bargaining. He is considered the “coordinator” of the Petrolão cartel of firms involved in the corruption/bribery scheme. As many of these firms, UTC is “on the rocks” (as they say) – unable to access any additional bank credit and to meet its financial obligations. UTC has dismissed 15,000 of its 30,000 employees and may sell off most of its assets ➔ its share in the Viracopos (Campinas) airport concession (and the smaller airport in Feira de Santana (BA), the Enseada shipyard, and the Move consortium that is constructing the new Orange line of the SP metro system.

1.5.1 – Petrobras released 1st Q/2015 financial report

Late Friday afternoon, 15th May (after financial markets had closed) Petrobras released its financial report for 1st Q/2015. No dividends were paid and investments were reduced by 40%, and profits of R$ 5.33 billion were posted – with no further mention of losses due to corruption. This result was 1.2% less that the R$ 5.39 billion profit posted in 1st Q/2014.

Revenues were R$74.4 billion (-9% YoY). The other quarterly results were:

1st Q/2014  +R$ 5.39 billion
2nd Q/2014  +R$ 4.96 billion
3rd Q/2014  -R$ 5.34 billion
4th Q/2014  -R$ 26.60 billion

Part of the “windfall” in 1st Q/2015 was that oil/gas production increased, and because the pump price of gasoline and diesel was above the international price (of imports of these derivatives.

1.6 - Mensalão

On 15th May, STF Judge Luís Roberto Barroso granted the request from former deputy Roberto Jefferson (PTB-RJ) and released him from prison in Rio in to a regime of “house arrest”. This request was supported by federal prosecutors because Jefferson had already served 1/6 of his seven-year prison term.

2 – FOREIGN RELATIONS & TRADE

2.1 – Chinese Premier to visit Brazil

Chinese Premier Li Keqiang will arrive in Brasília on 19th May with a package of infrastructure projects valued at some US$ 53 billion. The principal project is the trans-oceanic highway that will link Brazil to the Pacific Ocean via Peru – at a cost estimated at between US$ 4.5 billion and US$ 10 billion. This route would cut through the Brazilian Amazon region and might meet opposition from environment groups. The alternate route would be via the deserts in southern Peru and this route would also involve Bolivia. This route would enable Brazil to export soy and iron ore to China at cheaper FOB rates. The premier has another 33 projects in his “goodie bag”. He will also visit Chile, Peru and Colombia – three nations with more “liberal” economic models.
The press affirms that China has invested heavily in nations that have had their “solvency” questioned (Venezuela and Argentina). For example, China has invested some US$ 60 billion in Venezuela – more than double than in Brazil.

The press reports that ICBC-Industrial & Commercial Bank of China Ltd. plans to invest US$ 50 billion in infrastructure projects to be managed by Brazil’s CEF-Caixa Económica Federal. Details regarding this venture will be released next week during the Premier’s visit.

China’s fifth largest bank – Bank of Communications Co. – is negotiating to acquire a majority share (80%) in the Banco BBM SA for some US$ 200 million. This would be the bank’s first overseas acquisition. At the end of December 2014, BBM had a book value of US$ 192 million. This deal is being assisted by Citigroup Inc. and the Goldman Sachs Group Inc.

3 - REFORMS

3.1 – Political Reform

Political reform is considered a “Never-Ending Story” in Brazil. After the ANC (1987-1988) allowed illiterates and 16-17 year olds to vote and imposed a second round election in executive posts (President, Governador and Mayor) where no candidate achieves an absolute majority, several other changes in election and party rules were adopted.

1) A system of quotas for women candidates in PR elections was adopted in 1995;
2) One immediate reelection was permitted by PEC in 1997;
3) Blank votes for deputy were considered “null” also in 1997;
4) As 2000, electronic voting machines were universalized;
5) Via “judicialization”, the TSE/STF imposed the “party loyalty” rule in 2007; and
6) In 2010, Congress approved the “Ficha Suja” law.

However, several proposals to modify Brazil’s election system were defeated.

1) Close the “open list” procedure in proportional elections;
2) Abolish party coalitions in proportional elections;
3) Adopt a “mixed” election system, 50% single-member districts & 50% via PR;
4) Adopt a 5% barrier (exclusion clause); and
5) Prohibit campaign finance by private sector firms.

In the first semester of 2015, the Chamber is poised to vote on a “new” proposal, perhaps in June (next month) – the so-called “distribuição” – “big” multi-member election districts, where each state would be an election district and would elect the candidates who receive the largest number of votes. Thus, in the state of São Paulo, with 70 seats in the Chamber the 70 most-voted candidates would be elected regardless of party. In Brasília, with 8 Chamber seats the eight candidates with the largest number of votes would be elected and the ninth would become the first alternate.

In addition to the distribuição, the current “reform package” promoted by the PMDB and Vice-President Michel Temer (PMDB-SP) includes other changes – 1) Elections would become
simultaneous (federal, state and municipal elections) on the same date (Mayors and city councils elected in 2016 would have six-year mandates until 2022); 2) For those elected in 2022, the basic mandate would be five years instead of four and the mandate for senators would increase from 8 to 10 years; and 3) Immediate reelection for executive posts would be eliminated. With the distritão there would e no coalitions.

Many constitutional law scholars affirm that the distritão (individual candidates first past the post) would require a PEC (60% quorums in the Chamber and Senate) because the proportional representation system was inserted into the 1988 Constitution – and thus would require 308 votes in the Chamber and 41 in the Senate. The press claims that this change counts a slim 260-vote absolute majority in the Chamber, but its supporters will not be able to muster the 60% quorum.

Under the current system of open list proportional representation with coalitions, 95% of the votes cast are “nominal” (for an individual candidate) and less that 5% are cast for a party. This makes Brazil’s political parties “weak” and most scholars feel that the distritão would weaken the parties even further. ➔ Stay tuned!!!

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Retail Sales decline in 1st Q/2015

On 14th May, IBGE released its data on Retail Sales for 1st Q/2015 – a decline on -0.8% QonQ – the worst quarterly decline since 3rd Q/2003 (-4.4%). According to Juliana Vasconcellos, who managed this IGBE survey, this trend is similar to 4th Q/2014 with declining consumer demand because of 1) declining incomes; 2) less credit availability; 3) family budget restrictions; and 4) less buying power. Supermarket sales were down by -1.2%.

Bloomberg News surveyed 37 economists and their median estimate of retail sales retraction was -0.4% -- half of the final IBGE result.

5.2 – “Happiness Index”

The felling of well being [“Unhappiness Index”] felt by Brazilians – measured by the rates of unemployment and inflation – reached the lowest level in 1st Q/2015 in nine years. Between 4th Q/2014 and 1st Q/2015 the so-called “Misery Index” was up 13.5 ➔ 15.5 points. In 1st Q/2015, the accumulated IPCA was +8.1% and unemployment was 7.3%.
According to Bráulio Borges, the Chief Economist of LCA (that constructed this index), the sharp deterioration of this index explains the strong erosion of the popularity of Dilma 2.0.

5.3 – FGV ➔ GDP retracted -0.27% in 1st Q/2015

According to estimates by Ibre/FGV, Brazil's GDP retracted by -0.27% in 1st Q/2015 (QonQ). The GDP retracted -0.9% in the 12-month period ending in March 2015. Economists surveyed by the Central Bank’s weekly Focus newsletter on Monday, 11th May projected a -1.2% GDP retraction in 2015.

5.4 – Moody’s lowers outlook for Vale

On 14th May, Moody’s Investors Service lowered its outlook for Vale because of a plunge in iron-ore prices ➔ down by -39% over the past 12 months.