Looking Ahead ➞ What to watch for?

- 15th June -- Central Bank to release IBC-Br for April ➞ +0.% MoM & % YoY
- 15-16 June -- OAS General Assembly to meet in Washington, DC
- 16th June -- IGP-10 ➞ %
- 18th June -- Former President FH Cardoso celebrates 84th birthday
- 18th June -- IBGE to release IPCA-15 ➞ +0.%, vs. +0.% in May
- 18th June -- Serasa-Experian ➞ economy 0.% in April
- 23rd June -- IBGE – Unemployment in May ➞
- 23rd June -- IBGE to release IPCA-15 inflation data ➞ %
- 24th June -- SRF - May federal revenues R$ billion
- 24th June -- Caged data - new jobs created in May
- 27th June -- June IGP-M ➞ % ➞ +% for 12-month period
- 27th June -- IBGE: April retail sales ➞ +0.%
- 30th June -- Public Account data for May
• **30th June** -- Pres. Dilma Rousseff to visit Washington

• **1st July** -- Trade balance for June ➔ US$ billion; 1st semester ➔

• **1-5 July** -- FLIP – International Literary Festival in Paraty, RJ

• **2nd July** -- New car sales June, units (% YoY), in 1st semester (% YoY)

• **2nd July** -- IBGE industrial production for May ➔ 0.% MoM; -% YoY

• **4th July** -- US Independence Day [national holiday]

### 1 - POLITICS

#### 1.1 PT Fifth National Party Congress in Salvador, BA

The 5th National Congress of the PT met in Salvador, BA on 11-14 June. At first, Pres. Dilma declined to attend fearing that she would be “malignated” but radical PT militants in opposition to her fiscal austerity plan. After pleas from the PT leadership she agreed to attend the closing ceremony of the Congress on 14th June. The PT leadership went further and guaranteed that they had “muzzled” the radical militants and that she should attend the opening ceremony on Thursday evening, 11th June. Still, Dilma argued that she would be in Brussels for the EU-CELAC summit on 9-11 June. Finally, she acceded and agreed to leave Brussels early in order to arrive in Salvador around 8 pm.

The PT is going through a severe crisis and is rent into several “tendencies” (wings or factions). The 800 delegates to the 5th Congress are divided as follows:

1) **O Partido que Muda o Brasil** (429 delegates)
   - Two sub-groups, CBN (*Construindo um novo Brasil*) & *Novo Rumo*
     ➔ Leaders - Lula, Mercadante, Jacques Wagner, Fernando Pimentel & Ricardo Berzoini

2) **Mensagem do Partido** (164 delegates)
   - Two sub-groups, *Mensagem* & DS-*Democracia Socialista*
     ➔ Leaders – José Eduardo Cardozo, Miguel Rossetto, Fernando Haddad, Tarso Genro & Pepe Vargas

3) **Partido é para Todos, na Luta** (114 delegates)
   - Three sub-groups, *Movimento PT, Tribo* & *Socialismo 21*
     ➔ Leaders – Arlindo Chinaglia, Maria do Rosário & Marco Maia

4) **A Esperança é Vermelho** (42 delegates)
   - One group, *Articulação de Esquerda*
     ➔ Leader – Valter Pomar

5) Other Groups:
   - *É pela Esquerda que Queremos o Brasil* (17 delegates)
   - *Constituinte por Terra, Trabalho e Soberania* (11 delegates)
   - *Contraponto Socialista* (8 delegates)
   - *Virar à Esquerda, Reatar com o Socialismo* (5 delegates)
Markus Sokol, a member of one of the more radical wings of the PT began his speech with praise for “our dear PT militant [and former party treasurer] João Vaccari Neto”. This provoked some 3 minutes of standing ovation. **Detail:** Vaccari is in prison in Curitiba accused of receiving bribes from the petrolão scheme.

Pres. Dilma was expected to arrive at the PT Congress around 8 pm after her return flight from Brussels. However, her flight was about two hours late and she finally arrived at the Congress shortly before 10 pm.

**Pres. Dilma, Lula, Rui Falcão & Jaques Wagner at the Fifth PT National Congress in Salvador**

### 1.2 – New infrastructure “package”

Before embarking to Brussels, on 9th June, Pres. Dilma and cabinet members of her “economic team” unveiled the new PIL-Programa de Investimentos em Logística (Logistics Investment Program) ➞ R$ 198 billion for ports, highways, railroads and airports via new concessions and modifications on some existing concessions. The R$ 40 billion allocated for the “bi-ocean” railroad that will link Brazil to sea ports in Peru is considered a non-viable project by most specialists. Pres. Dilma affirmed that this proposal will “turn the page”.

These logistics projects are divided into four groups:

- **Highways – R$ 66.1 billion** ➞ 15 segments of highways
- **Railroads – R$ 86.4 billion** ➞ including R$ 40 billion for the Biocceanic route
- **Ports – R$ 37.4 billion** ➞ 50 new port concessions
- **Airports – R$ 8.5 billion** ➞ Porto Algre, Florianópolis, Fortaleza and Salvador plus six regional airports in SP and one in GO.

However, it is not clear whether any of the 23 large engineering/construction firms accused in the Petrolão case will be able to bid on these concessions.

Pres. Dilma’s first infrastructure program in 2012 failed miserably because it was not able to stimulate investments in this area. Analysts at Barclays Capital said that Rousseff’s steps to correct the
failings of her first term programs, which drew scant interest because of excessive state meddling, may be insufficient.

Odebrecht CFO, Marcela Drehmer, said that the scope of this new PIL is positive; she was skeptical whether it gives banks and investors enough firepower to fund this program. “It’s unclear how the government will entice investors to invest in those projects,” she said.

See ➔ http://www.reuters.com/article/2015/06/11/us-brazil-infrastructure-odebrecht-idUSKBN0OR22U20150611

1.3 – Lava Jato – Petrolão

On 10th June, it was revealed that one of the construction firms involved in the Petrolão – Camargo Corrêa paid R$ 7.38 million to a former director of this firm – Pietro Francesco Gavin Bianchi – for the distribution of bribes between 2009 and 2013 – in spite of the fact that Bianchi had been arrested and accused during the Operation Castelo de Areia in 2009.

The Federal Police are now investigating “contributions/donations” by some of the accused petróleo firms to Lula’s foundation (Institute Lula in SP) – as a “legal” way of distributing Lava Jato bribes to Lula and the PT. Camargo Correa “donated” R$ 4.5 million to Lula’s institute and R$ 1.5 million to the IILS Palestras, Eventos e Publicidade (an entity owned by Lula) – supposedly compensation for Lula’s speeches at “special events” in Brazil and overseas.

To this end, a reporter from Época weekly news magazine requested the MRE-Foreign Ministry (Itamaraty) under the “Freedom of Information Law” to release documents regarding Lula’s overseas travel while President (2003-2010) after he left office (January 2011 to date) that cite Odebrecht. As a “knee-jerk” reaction, the Director of Communications at the MRE immediately tried to get this information quickly classified as “secret” (to protect Lula). For example, in early 2013, Lula visited Cuba, the Dominican Republic and the US in the company of Alexandrino Alencar, Director of Institutional Relations at Odebrecht – in a Lider Taxi Aéreo executive jet plane. The registry of this flight by Lider listed it as “a completely secret flight” in the space to identify the “main passenger”. In its 12th June 2015 edition, O Globo ran a full-page story on this episode.


Supposedly, Itamaraty is a “unit of the State” and not the government, and much less “at the service of a political party”. After this edition of O Globo hit the streets, that same afternoon, the MRE reacted “quickly” - after some severe “prompting” by the Chair of the Senate Foreign Relations Committee – Sen. Aloysio Nunes Ferreira (PSDB-SP) – with the Acting Foreign Minister Amb. Sérgio Danase ➔ and it was decided that the MRE would immediately liberate all the documents requested by the Época reporter.


Want more? The CPI investigating the Petrobras corruption/bribe scandal has now subpoenaed Paulo Okamotto (the President of the Institute Lula) to testify about these “contributions” and broke the bank/fiscal secrecy of José Dirceu and his consultancy. The PMDB controls this CPI and is “chastising” its erstwhile Dilma coalition ally (the PT) because her Casa Civil chief, Aloísio
Mercadante (PT-SP) is trying to undercut Vice-President Michel Temer (PMDB-SP) in order to persuade Pres. Dilma to “relieve” Temer from his new (and fairly successful) task of coordinating the Dilma government’s congressional relations. Reportedly, Lula was very upset by the convocation of Okamotto by the CPI and asked Temer for “explanations”. ➔ Stay tuned!!!

For more on Odebrecht, see Item 1.2.

1.4 – Operation Porto Victoria

On 11th June, the Federal Police arrested an ex-Vice President of the Banco do Brasil – Allan Simões Toledo. This federal court arrest warrant for eleven persons was issued regarding the Federal Police’s Operation Porto Vítória against a group operating in SP, RJ and PR specializing in money laundering and illegal FX operations. Toledo left the BB in 2012 where he held a key position – V-Pres. for Wholesale Banking, International Operations and Private Banking. After he failed in an attempt to “destabilize” the then BB President, Aldemir Bendine (now the President of Petrobras) he resigned. The BB installed an internal inquest against Toledo because COAF had discovered “irregular” financial movements of over R$ 1 million. COAF also identified the movement of some R$ 3 billion – and was investigated by ICE-US Immigration and Customs Enforcement in 2014. In 2014, ICE sought cooperation from Brazil to investigate this case.

The Federal Police decided to act because one of the 11 persons covered (and under surveillance) under the federal arrest warrant is a foreign citizen and doleiro (money changer) who had purchased an air ticket to exit Brazil on Thursday evening, 11th June.

After leaving the BB, Toledo went to work with the Banco Banif in SP that is under investigation by Operation Porto Vítória. The Banif Group in HQ in Portugal. These “false” financial operations also involved Venezuela the US, UK, and Hong Kong.

1.5 - Eletrobras

Brazil’s publicly listed Eletrobras warned the SEC at the end of April that it would have to delay the completion of its 20-F form (or annual financial report) for 2014 because it has been alleged that the CEO of its subsidiary, Eletronuclear, had taken bribes. On 10th June, Eletrobras announced that it had hired a US law firm – Hogan Lovells to investigate possible violations of domestic and international corruption laws in its contracts. Detail: Moody’s recently downgraded Eletrobras to “junk bond” status. BUT Fitch affirms confidence in Brazil’s large electricity holding and will not do a downgrade.

“Hogan Lovells is a specialist in corporate investigations and was contracted to evaluate the possible existence of irregularities,” Eletrobras said.

1.6 – STF removes prior censorship of biographies
The long-standing judicial conflict regarding the prohibition of “unauthorized” biographies was definitively resolved by the STF on 10th June. On a 9-to-zero vote, the Supreme Court prohibited any prior censorship of biographies by Brazilian “celebrities” or their families. Among the “notables” who had obtained court orders to impede the publication/distribution of these “unauthorized” biographies were singer Roberto Carlos, the daughters of soccer player Garrincha, the family of guerrilla fighter Carlos Marighella, the family of poet Paulo Leminski, the family of author Mário Andrade, the family of poet Manuel Bandeira, the family of singer Geraldo Vandré, and the family of rural bandit leader Lampião.

2 – FOREIGN RELATIONS & TRADE

2.1 – EU-CELAC Summit in Brussels

Pres. Dilma Rousseff flew to Brussels on Tuesday evening, 9th June to participate in the EU-CELAC annual summit where 61 nations (40 heads of state) met on 10-11 June. On Wednesday morning, 10th June, Pres. Dilma met wit the Belgian Prime Minister Charles Michel before the summit began.

Pres. Dilma informed the EU leaders that Brazil would submit a formal draft of a block-to-bloc free trade agreement to the EU in July and that she hoped that the other Mercosur members would concur. This line of action was decided on 21st May during the visit of Uruguayan President Tabaré Vásquez to Brasília. Agriculture Minister Kátia Abreu (PMDB-TO) was more “direct” –“We will advance this agreement with the EU, with or without Argentina”.

Representatives of 61 Nations at the EU-CELAC Summit in Brussels, 10-11 June 2015

MDIC chief, Sen. Armando Monteiro (PTB-PE) and Presidential Advisor Marco Aurélio Garcia “contemporized” – “Mercosur members all well united and will stand together”.
The Brazilian FTA proposal will deal with several sectors – transportation, food, chemistry-pharmaceuticals, research, and development.

On Thursday, 11th June, Pres. Dilma left the meeting early for a direct flight (refueling in Las Palmas) to Salvador, Bahia for the opening session of the PT’s Fifth National Congress. (See Item 1.1)

2.3 – Italy approved Extradition of Pizzolato

On 10th July, the Italian Government finally approved the extradition of Henrique Pizzolato to Brazil as of Monday, 15th June. Apparently, the Brazilian Federal Police are articulating a scheme to transport him back to Brazil via a direct commercial airline flight to Brazil “early next week”.

Pizzolato, a former Banco do Brasil Director, was convicted of fraud (with BB funds) for the mensalão by the STF and sentenced to 12 years and 7 months in jail. In preparation for his “escape” from Brazil, he had acquired a falsified passport in his brother’s name – the brother had died in 1978. He fled Brazil by land via Paraguay and Argentina, and flew to Spain from Buenos Aires and on to Maranello, Italy where he was eventually arrested in February 2014.

HOURVER ➔ On Friday, 12th June, this “never-ending story” continued when “diplomatic sources” and the Italian Interpol confirmed that Pizzolato’s extradition had again been “suspended”. His appeal of the Council of State’s decision to let the extradition proceed after the Administrative Court in Lácio refused Pizzolato’s appeal. However, late Friday afternoon (7 pm in Rome), 12th June, one member of the Council of State issued a temporary injunction the impeded the extradition and thus accepted Pizzolato’s appeal. ➔ Stay tuned!!!!

3 - REFORMS

3.1 – Chamber approved 5-year mandates

On 10th June, the Chamber approved a first-round 348-to-110 vote to make all mandates (legislature and executive posts) have five-year mandates. However, this PEC would have to be approved on a second round vote in the Chamber and then two rounds of voting in the Senate. Probably this proposal will “die” in the Senate.

If approved, to be implemented, this measure would take effect for mayors and city councils as of 2020 and for other offices as of 2022. The Chamber rejected the end of the obligatory vote and the unification of elections (currently, municipal elections are two years out of phase).

On Thursday, 11th June, the Chamber approved the reduction of the minimum age for Senators to 30, for Governors to 29, and for deputies to 18. In addition, new dates for inaugurations were approved (to avoid inaugurations on 1st January, when everyone is still “hung over” from New Years Eve celebrations. Governors will be sworn in on 4th January and the President on 5th January.
4 – PRIVATIZATION & REGULATION

4.1 – Azul acquires TAP

On 11th June, the Portuguese Council of Ministers decided in favor of the Gateway consortium led by Brazil’s airline – Azul – together with the Portuguese firm Barraqueiro led by Humberto Pedrosa to acquire 61% of TAP, as part of Portugal’s push to sell off its state enterprises. Pedrosa is the 15th richest person in Portugal. Pedrosa holds 50.1% of the consortium together with the DGN group led by Neeleman who did not reveal the participants in DGN. This decision still depends on approval by the EU pro-competition unit. TAP employees were offered a 5% share, but if they do not accept this share would revert to the Neeleman-Pedrosa consortium (66%). The Portuguese government will maintain a 34% share of TAP.

This acquisition involves a direct cash transfer of 10 million euros to the Portuguese government, but rather Gateway will assume TAP’s large debt (one billion euros). In addition, Gateway will maintain Lisbon as the HQ of Tap and invest 350 million euros. The Neeleman-Pedrosa consortium will invest 338 million euros in TAP and will acquire 53 new wide body, long range planes to renew TAP fleet.

TAP already has direct flights to Brazilian airports in São Paulo, Campinas, Rio de Janeiro, Belo Horizonte, Brasília, Porto Alegre, Salvador, Recife, Natal, Fortaleza, Belém and Manaus. In order to implement code shares with TAP, Azul will have to secure more “slots” in the Guarulhos, Galeão and Brasília.

4.2 – New Airport concessions to reduce Infraero staff

The proposal for a concession auction for the airports in Porto Alegre, Salvador, Fortaleza and Florianópolis should reduce the staff of Infraero by some 6,000 posts – according to Dep. Eliseu Padilha (PMDB-RS), the current head of SAC-Civil Aviation Secretariat.

5 - ECONOMICS

5.1 – May Inflation

On 10th June, IBGE released the IPCA for June ➔ +0.74% versus +0.71% in April. The 12-month accumulation now stands at +8.47% versus +8.17% in April. This was the highest May result since +0.79% was posted in 2008 – and was higher than expected by the economists consulted by Bloomberg News ➔ +0.59%. In the first five months in 2015, the IPCA accumulation is now 5.34% - the highest rate since the same period in 2003 ➔ +6.80%.

The heaviest inflation component was electricity rates that increased by +58.74% in the 12-month period.

5.2 – Delta to acquire 20 Embraer planes
On 11th June, Delta Airlines announced that it would acquire 20 planes from Embraer – the E190 model and 40 new Boeing 737-900 ER planes

5.3 – Brazil’s “little crop” corn market soars

The “little crop” [safrinha] in Brazil is a second planting season after the regular spring-summer crop has been harvested. This year, the “little crop” season for beans has had pool results due to a lack of rain in those regions. However (1), the “little crop” for corn has soared in the central-south regions because of lots of rain so the “little crop” harvest may reach 53 million tons – for a market already saturated after the “weaker” spring-summer harvest (30 million tons). When this corn reaches the market, corn prices will come down substantially. By “cascade”, this means that animal feed prices will also decline ➔ lower meat prices. Many farmers plant soy during the spring-summer (first crop) and then plant corn in the “little crop” season. However (2), Brazil’s limited port capacity might hinder farmers’ ability to export corn in 2015. “Brazil can’t manage to export all the soybeans and all the corn in could because of logistics restraints,” said Steve Cahia, an analyst with the Cerealpar brokerage firm in Paranaguá, PR.

Above-average rainfall in February-March is enhancing the prospect for the June-August winter harvest. Brazil’s productivity rose by over 60% in the past decade to 8,654 Kg per hectare in the top producing state of Paraná.