Brazil Focus –
David Fleischer
Phone/FAX: 55-61-3327-8085
Cell: 9218-2771 e-mail: Fleischer@uol.com.br

Weekly Report –
July 4-10 2015

Looking Ahead ➔ What to watch for?

- 10-12 July -- Pope Francis to visit Paraguay
- 13th July -- Central Bank to release its IBC-Br for May ➔ % MoM; +% YoY
- 16th July -- IBGE – Retail sales in May ➔ +0.% MoM
- 17th July -- Caged data ➔ new jobs created in June
- 21st July -- CNI ➔ Industrial Employment in June, points vs. points in May
- 22nd July -- SRF ➔ June tax collections R$ billion, +0.% YoY
- 22nd July -- IBGE to release July ICPA-15 inflation data ➔ +0.% versus +0.% in June
- 24th July -- HDI ➔ Brazil ranked ___ with score of ___
- 24th July -- IBGE to release unemployment data for June
- 28-29 July -- 192nd Meeting of Copom ➔ Selic rate
- 30th July -- June public accounts
- 30th July -- FGV to announce July IGP-M ➔ % versus % in June
- 31st July -- Congressional Recess ends [“officially”]
1.1 – Dilma “strikes back

After she returned from her trip to the US, Pres. Dilma came under heavy pressures to “respond” to the large number of criticisms, accusations, negative revelations and speculations about her “weak, indecisive and uncoordinated” government. In fact, her defeats in Congress and the steady stream of revelations (including plea bargaining) emanating from the Lava Jato investigation had increased “dangerously” in the past weeks with no “hard” response from the President, except for her outburst against “informers” when she was in New York.

On Monday, 6th July, she gave a long, exclusive interview to Folha de São Paulo reporters that appeared in three full pages on Tuesday, 7th July.


She emphatically repeated “Eu não vou cair” (“I will not fall”) three times. The “timing” of this interview was questioned because it seemed to be a response to the national PSDB convention held in Brasilia on Sunday, 5th July – where she was severely criticized and comments regarding the possibility of her not completing her second term abounded.

See ➜ http://uk.reuters.com/article/2015/07/08/uk-brazil-politics-rousseff-idUKKCN0PI17820150708

1.2 – Lava Jato - Petrolão

The Federal Police and federal prosecutors compared 135 telephone calls from Odebrecht executive Rogério dos Santos Araujo to Bernardo Freiburghaus in Switzerland with the dates of deposits he made in Swiss bank accounts and concluded that these funds ended up in the accounts of then Petrobras Directors Nestor Ceveró, Paulo Roberto Costa, Pedro Barusco and Renato Duque.

In testimony to the Petrobras CPI on 7th July, Antonio Rodrigues, President of Coaf-Council for the Control of Financial Activities, explained that Coaf had identified “atypical financial movements” totaling R$ 51.9 billion and had sent 267 reports to the Federal Police since 2011. These “atypical” movements involved 27,579 persons and firms.
 Regarding the *doleiro* Alberto Yousseff Rodrigues explained that “He was already ‘famous’ – before the *Lava Jato* case – and had been investigated, he did plea bargaining, but continued operating”.

Also testifying at the CPI, former chief of the CGU [Internal Control] denied that the CGU had delayed its investigations of the Dutch firm SBM Offshore that paid bribes to secure contracts with Petrobras (until Pres. Dilma was reelected in October 2014) – as related in accusations by former SMB employee Jonathan Taylor. **Detail:** SMB was accused, tried and convicted by Dutch courts **long before** the CGU conducted its “investigation”.

### 1.3 – Corruption in Postalis

On 7th July, a federal court in SP ordered the blockage of all the patrimony of 20 executives of *Postalis* – the pension fund of ETC (Postal Service). This judicial order “froze” some R$ 196 million patrimony of these executives. This was the value (over priced) paid by *Postalis* for a piece of land (117,000 square meters) acquired to build an ECT “logistics center” in Cajamar. As in most of the pension funds of Brazil’s state enterprises, the “executives” of these funds were designated by the PT.

**Want more?** In its 2014 balance sheet, *Postalis* recognized that some R$ 5.6 billion has been “lost” due to “bad investments” made by its executives.

### 1.4 – US released documents from military period

On Wednesday, 8th July, the US government released a large number of documents produced by the US Embassy in Brasília and its consulates in Rio, SP, Belo Horizonte, Salvador, Recife, Belém and Porto Alegre regarding information about “the disappeared” – persons arrested during Brazil’s military regime (in the 1970s) who were tortured, killed and their remains “disappeared”. This trove of documents is part of an archive of 538 documents that were just released as a result of Pres. Dilma Rousseff’s visit to the US in late June 2015. Reportedly, as of 9th July, these documents should be available via the site of the US National Archives.  
**See** [http://www2.gwu.edu/~nsaarchiv/](http://www2.gwu.edu/~nsaarchiv/)

**See Also:**
- [http://g1.globo.com/politica/noticia/2015/07/documentos-indicam-que-eua-sabiam-antes-de-mortes-na-ditadura.html](http://g1.globo.com/politica/noticia/2015/07/documentos-indicam-que-eua-sabiam-antes-de-mortes-na-ditadura.html)
1.5 – NY Court – Class action suit against Petrobras to proceed

On 9th July, US Manhattan District Judge Jed Rakoff decided to allow the class action suit against Petrobras go forward and denied Petrobras’ motion to dismiss the US lawsuit. However, he stated that shares purchased in Brazil should be subject to arbitration there. The suit by share holders who acquired their ADRs in NY and Petrobras are to present their proposals by 15th July 2015 and the trial proper could begin on 1st February 2016.

This case is listed as In re Petrobras Securities Litigation, 14-cv-09662, U.S. District Court, Southern District of New York (Manhattan).

See ➜ http://www.reuters.com/article/2015/07/10/brazil-petrobras-classaction-idUSL1N0ZQ0KI20150710

1.6 – Déjà Vu 2011?

At the outset of her first term, Pres. Dilma “induced” the resignation of six cabinet ministers (holdovers from Lula) who had been accused of corruption in the press – the first to “fall” [cair] was the Minister of Transportation. Later, the then head of the CGU (internal control), Jorge Hage, said “that ministry has corruption in its DNA”.

On 9th July, the Federal Police executed a “search-and-seize” court order at the home of ex-deputy Edson Giroto (PR-MS) in Campo Grande, a “special advisor” to Transportation Minister Antonio Carlos Rodrigues (PR-SP). As a result, Giroto resigned his position at the Ministry. This action was part of Operation Lama Asfáltica. It is not known whether this Operation will affect Minister Rodrigues. Giroto is accused of organizing fraudulent bidding on contracts in Mato Grosso do Sul [his home state].

1.7 – Senate extended minimum wage index to all brackets

On 8th July, the Senate decided to extend the indexation calculation for the minimum wage social security (INSS) to all higher brackets of INSS benefits. The current minimum wage (R$ 788,00) will have a very small adjustment on 1st January 2016 – above the IPCA inflation in 2015 plus the increase of GDP in 2014 (only +0.1%). Traditionally, the higher INSS benefit brackets are indexed below the inflation rate. Technicians at the Social Security Ministry calculate that this measure will increase the social security deficit by R$ 3.4 billion per year in 2016, 2017, 2018 and 2019. Most probably, Pres. Dilma will veto this increase that would negatively impact the fiscal adjustment.

1.8 – Primary Surplus
Finance Minister Joaquim Levy has estimated that the primary surplus in 2015 will be +0.8% of GDP, but congressional leaders are determined to reduce this “target” to +0.4% in the 2016 budget deliberations – to be more “realistic” ➔ have more “resources” (pork) to distribute in 2015.

1.9 – Renan Calheiros, federal court case – Déjà Vu 2007

Finally, after eight years, federal prosecutors opened a case against Sen. Renan Calheiros (PMDB-AL) alleging “administrative impropriety” because he “allowed” Claudio Gontijo, a lobbyist for the Mendes Junior construction company pay alimony and support expenses to Monica Veloso - a TV Globo journalist – for his illegitimate daughter that resulted from their “relationship”. Because of certain “favors” that Mendes Junior received, these payments (R$ 246,000,00) were considered a “bribe” [propina]. At that time, Calheiros was Senate President (2005-2007) and was threatened by cassação [expulsion from the Senate] in 2007. However, in order to save his mandate as Senator, he resigned the Senate presidency and continued as Senator. Detail: Calheiros is also under investigation at the STF because of accusations from the Lava Jato investigation.

The Renan Calheiros—Monica Veloso case was nicknames the “Renangate” in 2007. The press recalled the case of Christine Keeler in London in 1963. At age 21, she had been a “sleeping partner of Yevgeni Ivanov naval attaché and GRU officer at the Russian Embassy and of a British Minister of War, John Profumo. Back then, the UK press had a field day regarding “pillow talk” security breaches. The minister resigned and the naval attaché was recalled to Moscow. Because of her “notoriety”, Ms. Keeler posed (nude) for several magazines, including a B&W photo of her sitting nude on a Danish kitchen chair. The “zealous” Brazilian press discovered a similar photo of Ms. Veloso (then age 39) and the photo comparison appears below.

2 – FOREIGN RELATIONS & TRADE

2.1 – 7th BRICS Summit in Ufá (Russia)
The BRICS (Brazil, Russia, India, China and South Africa) met in Ufa, Russia on 8-9 July. Pres. Dilma Rousseff left Brasilia at 08:30 am on 7th July with a refueling overnight stop in the city of Porto, Portugal. Because he was participating in an academic program at the University in Coimbra, STF President Ricardo Lewandowski traveled to Porto to meet with the President. This “encounter” was articulated by Justice Minister José Eduardo Cardozo. Reportedly, *Lava Jato* and impeachment were on their agenda.

Thus, Pres. Dilma arrived in Ufa late Thursday afternoon, 8th July – just in time for the opening dinner at Dasko Garden restaurant in Ufa. The main item on the agenda was the ratification of the NDB (New Development Bank) that will have its HQ in Shanghai (China) and with initial capitalization at US$ 50 billion that later might reach US$ 100 billion. Brazilian economist Paulo Nogueira Batista left the IMF to become the new Vice-President of this NDB. Dilma’s entourage in Ufa included five cabinet ministers – Mauro Vieira (Foreign Relations), Kátia Abreu (Agriculture), Jaques Wagner (Defense), Aldo Rebelo (Science & Technology) and Alexandre Tombini (Central Bank) – plus Prof. Marco Aurélio Garcia (special foreign affairs advisor).

*Photo: Ria Novosti*

Special dinner, BRICS Summit, 8th July 2015

Also, the necessity of more integrated trade among the five nations was on the agenda. The Greek Prime-Minister, Alexis Tsipras, apparently was expecting some new financial assistance (loans) from the BRICS but this was not on the agenda.

*A CARTOON BY CHICO*
Dilma – “I want to ask your advice because the situation [in Brazil] is Russa [really bad].

Agriculture Minister Kátia Abreu announced that import of Russian wheat should be approved “soon”. However, she affirmed that the decisions regarding wheat imports are made by the Brazilian market (and not the government) – the importers choose the country (source) on a cost/quality basis. However, she stated that Brazil seeks reciprocity, and that if Russia imports more Brazilian meat (beef, chicken and pork) that Brazil should import Russian wheat.

Italy ➔ On Friday, 10th July, Pres. Dilma arrived in Rome and met with Italian President Sergio Mattarella and with the PM Matteo Renzi. She also met with FAO Director-General José Graziano at the Brazilian Embassy. That same afternoon, she flew to Milan where on Saturday, 11th July she was to visit the Brazilian Pavilion at the Milan Expo where 148 nations are represented. While in Milan, on Friday evening, she attended the opera production of Otelo at the Teatro alla Scala.

The Italy visit included three cabinet ministers – Mauro Vieira (Foreign Relations), Aldo Rebelo (Science & Technology) and Jaques Wagner (Defense) plus presidential foreign affairs advisor Prof. Marco Aurélio Garcia. Reportedly, the extradition of Henrique Pizzolato and Cesare Battisti was not on the official agenda.

2.2 – Federal Police arrest Argentine torturer

On 6th July, the Federal Police in Rio Grande do Sul arrested Roberto Oscar González, age 64, who is on Argentina’s “most wanted” list of 54 torturers and murderers from its military regime (1976-1983). González had been living in the rural area of Viamão (some 25 Km outside Porto Alegre). What called the attention of police was a traffic ticket issued to a car in his name and when González took his sick (Parkinson) Argentine torturer colleague Pedro Osvaldo Salvia to a hospital (where he died). González will be held in the Federal Police lockup in Porto Alegre until his extradition procedure is complete. The Brazilian Supreme Court had already issued an arrest warrant for González (at the request of the Argentine government and his name was also on the Interpol wanted list. The Federal Police affirmed that González told them that his “team” eliminated some 1,200 persons out of “nationalism”. 

3 - REFORMS

3.1 – Pres. Dilma issued MP for the PPE

On 6th July, Pres. Dilma issued a MP (Plano de Proteção ao Emprego-Job Protection Plan) – to avoid large scale sackings of workers in industries impacted by Brazil’s recession. Instead of just firing its employees, the industry can reduce the work week and salary of its workers up to 30%. One-half of the salary reduction would be covered by FAT-Fundo de Amparo ao Trabalhador. This PPE was elaborated during the past three years and was inspired by a similar program in Germany.

In 2015, the cost of this “plan” is estimated at R$ 19.1 billion and another R$ 9 billion in 2016. However, business leader Luigi Nese, a member of Codefat (the Deliberative Council of FAT, who represents the services sector (CNS) complained that this “plan” was designed to favor the automaker sector and will not benefit other sectors. He affirmed that Finance Minister Joaquim Levy had promised that no measures (in the fiscal adjustment package) would benefit some sectors and neglect others.

This week, GM fired 400 workers at its factory in São Caetano do Sul, SP. GM has another 900 workers who have been on layoff since November.

The “accusation” by Sr. Luigi Nese seems to be quick accurate because this week Anfavea and the Dilma government have been discussing new measures to promote more auto exports. These discussions are reported to continue for another 15 days.

Some possible measures that could be adopted are – special financing for federal banks for auto parts manufacturers, the reduction of some import tariffs in bi-lateral accords, and accelerating auto-trade talks with Colombia, Peru and Uruguay.

The government wants to counteract the severe decline of this sector (in June, production was down 14.8% YoY and sales were down 19.4% YoY) by enhancing auto exports.

4 – PRIVATIZATION & REGULATION

4.1 – Upcoming oil rights auction

ANP affirmed that 17 firms from eight different nations are interested in bidding on oil exploration and production rights at the 13th round concessions auction planned for 7th October 2015. Over half of these interested firms are considered “large operators” of oil exploration blocks, according to Magda Chambriard, ANP Director. It is estimated that this offer of 84 offshore and 182 onshore blocks should produce some US$ 870 million to complete minimum exploration work on these concessions.
5 - ECONOMICS

5.1 – June Inflation

On 8th July, IBGE released data for the June IPCA ➔ +0.79%, slightly higher than the IPCA in May (+0.74%). Thus, the IPCA accumulated +6.17% in the first semester of 2015 versus +3.75% in the same period in 2014. This first semester accumulation was surpassed in the same period in 2003 (+6.64%).

Take heart ➔ The increase in the June IPCA was “less than expected” by 42 economists surveyed by Bloomberg News (+0.82%)

As of June 2015, the 12 month accumulation is now +8.89%. Previously the highest 12-month accumulation was in December 2003 (+9.30%). The IPCA is now close to +9.00%, +2.5 points above the upward Central Bank “target” (+6.5%). This means that COPOM probably will increase the Selic rate by at least 50 bps – from the current 13.75% -- at its next meeting on 28-29 July.

On 1st July, the Real marked its 21st anniversary. The R$ 100,00 note from 1994 is now worth R$ 19,90.

5.2 - Unemployment

On 10th July, IBGE reported that unemployment had reached 8.1% in the quarter ending in May. This was a major increase from 7.0% in the same period in 2014 and 7.4% in the previous quarter (December-February). This data was from the Continuous PNAD survey with national coverage. The monthly PME covers only six metropolitan regions.

On 7th July, IBGE announced that the release of data for the April-May-June PNAD will be delayed between 14 and 43 days ➔ perhaps on 25th August and not on 6th August.

5.3 – Industrial Production

On 10th July, IBGE released data for IP for May. Increases were reported for 9 of the 14 areas surveyed vis-à-vis April ➔ +0.6% MoM, after three months of retraction (February, March & April. In January, IP was positive, +0.4% MoM. However, this May increase was not enough to offset the negative pattern ➔ the 12-month accumulation of IP is now -5.3%.

5.4 – IMF revised estimate of Brazil’s GDP “downward”

On 9th July, the IMF issued a revised estimate for Brazil’s GDP for 2015, from -1.0% to -1.5% - - or a bad recession year. The IMF predicted a +3.3% expansion of the world’s economy and +4.2% for the so-called “emerging markets”.
