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

Weekly Report –
Feb. 12-18 2015

Looking Ahead ➔ What to watch for?

- 15-19 Dec. – WTO ministerial encounter, Nairobi, Kenya
- 21st Dec. -- Mercosur Summit to meet in Asunción, Paraguay ➔ Uruguay to assume next six-month rotating presidency
- 22nd Dec. -- Deadline for Congress to adjourn
- 25th Dec. -- Christmas Day [national holiday]
- 30th Dec. -- Public Account data for November
- 30th Dec. -- FGV to post December IGP-M & 2015 ➔
- 31st Dec. -- Deadline for Congress to approve 2016 detailed budget [LOA]
- 1st Jan. -- New Years Day – National Holiday
- 1st Jan. -- New minimum wage of R$865,50 goes into effect
- 4th Jan. -- December and 2015 trade balance data
- 5th Jan. -- December auto sales ___ & ____ units in 2015
- 7th Jan. -- FGV to announce December IGP-DI ➔ +0.____% & ____% in 2015
• 8th Jan. -- IBGE to announce unemployment data for November
• 8th Jan. -- IBGE to post IPCA: December ➔ +__% & +__% in 2015
• 13th Jan. -- Serasa Experian ➔ consumer loan defaults in 2015
• 13th Jan. -- IBGE: Industrial Production for November ➔
• 14th Jan. -- IBGE: November retail sales ➔
• 14th Jan. -- Central Bank to release IBC-Br for November ➔
• 15th Jan. -- Heritage Foundation to release its Index of Economic Freedom
• 15th Jan. -- IBGE to release November Industrial Employment data
• 18th Jan. -- EIU to release its 2015 “Democracy Index”

Observation: Due to the end of year holidays, the next issue of *Brazil Focus* will be sent out on Friday, 8th January.

➢ Wishing you all a good Holiday Season and a Happy New Year 2016!!

SUPER WEDNESDAY – December 16th will do down in Brazilian political history as a major watershed for the political system! One newspaper headline said “*Dilma suffered three defeats [3 Fs] – Fachin, Fitch & Fed*”

1) The STF specified the impeachment ritual ➔ Item 1.1;
2) Fitch Ratings downgraded Brazil to “junk bond” ➔ Item 1.2; &
3) PGR requested STF to remove Eduardo Cunha ➔ Item 1.3.

➢ Other important events this week:
- The US Federal Reserve upped the basic interest rate 0.25%➔ 0.50%.
- Federal Police carried out 53 search & seize operations.
- Federal Police operation against fraud at *Postalis* pension fund.
- The PMDB Executive Committee vetoed “new” party switchers
- A court in B. Horizonte convicted and sentenced former PSDB Gov. Eduardo Azeredo to 20 years in prison for election finance corruption in 1998 via the so-called *mensalão Tucano*
- Pro-Dilma groups staged street mobilizations on 16th December.
- Chamber Ethics Council approved continuation of cassação investigation against Dep. Eduardo Cunha
1.1 – Impeachment – Judicialization by the STF?

Last week, Supreme Court judge Luiz Edson Fachin issued an injunction (in response to a request by the PCdoB) to suspend the installation of the special impeachment committee in the Chamber of Deputies – pending a decision by the full STF regarding the point in question (the validity of the secret ballot used to elect the alternate slate of deputies as the representatives of their respective parties on the special impeachment committee. Fachin tried to convince the full STF to deliberate the impeachment ritual to be used in 2015.

Many deputies and other observers (participants) argue that the same “ritual” that was used in the impeachment of Pres. Collor in 1992 should be used [again].

The conclusions in Fachin’s parecer [report] – presented on Wednesday afternoon, 16th December - were a frustrating defeat for Pres. Dilma and her allies. This parecer was then voted on by the other ten STF judges on Thursday, 17th December. Previous to the presentation of Fachin’s report, many observers thought that he would alter the impeachment process/ritual in favor of Pres. Dilma because he had been a PT sympathizer in Paraná and supported her election in 2010. BUT his report denied all the points raised in the brief filed by the PCdoB in favor of her impeachment. During his confirmation hearing at the Senate, he said that as a STF judge he would be independent and impartial. Perhaps, Fachin had ascertained that if his report favored Dilma that he would be left hanging alone in a 10-to-1 final vote on the high court.

After presentations by the PGR, the AGU, the PCdoB lawyer, the lawyer representing UNE, and Dep. Miro Teixeira (Rede-RJ) representing the Chamber, judge Fachin read his 100-page parecer.

1) Approved the secret vote (election) with alternate slates of deputies to compose the Special Impeachment Committee in the Chamber;

2) If the Chamber approves the installation of impeachment, the Senate automatically receives this and installs the final judgment of impeachment – the Senate can not vote to decide the “admissibility” of impeachment (already decided by the Chamber);

3) When the Chamber decision is delivered to the Senate, the President is automatically suspended for 180 days while the Senate acts as a “jury” to finalize impeachment.

4) The President does not have the right to present a preliminary defense [against impeachment] to challenge the installation of the Special Committee in the Chamber.

5) Although Chamber President Eduardo Cunha has several accusations before the STF, his decision to accept the impeachment request was not unconstitutional – these are two separate episodes.

6) Fachin refused to cancel/annul the impeachment process in the Chamber.

On Thursday afternoon, 17th December, the STF session continued and the other ten judges cast their votes in bloc and not one-by-one – by reverse seniority order, with the last vote cast by the STF President. FOUR points were decided and three reversed the parecer elaborated by Judge Fachin and altered the impeachment ritual substantially:

1) The President does not have the prerogative to present her prior defense to the installation of the Special Impeachment Committee in the Chamber ➔ by a unanimous 11-to-0 vote
2) The secret vote in the Chamber to select the deputies to compose the Impeachment Committee was **annulled** on a very close **6-to-5 vote** – the tie was finally broken by the STF President Ricardo Lewandowski.

3) The technique used by the Chamber to select between **alternative slates** of candidates for the Impeachment Committee was **voided** by a **7-to-4 vote** – this means that each party leader will now have the prerogative of naming deputies from his party delegation.

4) If the Chamber decides by a 2/3 majority in favor of impeachment, the **Senate** will have the **prerogative of deciding** by a simple majority if to **accept the Chamber decision** or not – only when the Senate decides to begin judging the impeachment of the president would she be suspended for 180 days **⇒** by an **8-to-3 vote**.

Because of decisions 2) and 3), the Chamber will have to enact another process to constitute the 65-member Special Impeachment Committee. This is why the “Battle for the PMDB” (See Item 1.12) was so important to return Dep. Leonardo Picciani (PMDB-RJ) to his post as Party floor leader – now (apparently) he will be able to name eight PMDB pro-Dilma deputies to this Committee. **However,** if Chamber President Eduardo Cunha is able to put this off until February (after the PMDB has elected a “new” floor leader, and this new leader **is not** Picciani, Michel Temer should be able to prevail and 8 anti-Dilma PMDB deputies would be chosen. **⇒ Stay tuned!!**

http://g1.globo.com/politica/processo-de-impeachment-de-dilma/noticia/2015/12/rito-do-processo-de-impeachment-oss-votos-dos-ministros-do-stf.html


1.2 – Fitch downgraded Brazil to “junk bond” status

On Wednesday morning, 16th December, Fitch Ratings downgraded Brazil one notch into “junk bond” [speculative risk] status. This downgrade had been expected and market economists had already included this **fait accompli** into their investment projections [calculations]. For this reason, the Bovespa reaction was not as negative as might be expected. However, the US$ FX rate shot up considerably.

**What happened? What provoked the “timing” of the Fitch downgrade?** In less than 24 hours after a very obstinate Pres. Dilma countermanded the “technical” decision by Finance Minister Joaquim Levy who had fixed the 2016 budget fiscal target at +0.7% of GDP, and imposed the fiscal target at +0.5% – without consulting Minister Levy. “You are not going to touch my [sacred] **Bolsa Familia** social assistance, income transfer program,” she brandished – Fitch processed the downgrade.
The press was “amazed” and concluded that she was clearly aware that this decision [against Levy] would provoke a downgrade – but “that she really did not give a damn”. See Item 1.10

For Fitch, enough was enough” – citing rising concerns about an economic and political crisis that threatens to push President Dilma Rousseff from office and scuttle efforts to close a gaping fiscal deficit.


http://www.ft.com/fastft/2015/12/16/fitch-downgrades-brazil-to-junk/

http://www.reuters.com/article/brazil-ratings-fitch-idUSL1N1451B320151216


The Problem? ➔ Investors barred from owing junk bonds could dispose of about US$ 20 billion in Brazilian sovereign and corporate debt after two rating agencies have stripped Brazil of its prized investment grade status – according estimates by JP Morgan Securities in October 2015, after the first down grade to “junk” by S&P. Many investors knew that a second downgrade (to “junk”) by Fitch and/or Moody’s was “imminent” and had already begun “capital flight” by removing their investments in Brazil.

After Brazil began to get its public accounts in order in 1994/1995, it took until 2008 (13 years) to achieve an upgrade to “investment grade”. Many observers feel that it might now take another 10 or 15 years for Brazil to again achieve “investment grade”.

CMO approved LDO -- In spite of the downgrade by Fitch the day before, on 17th December the Joint Budget Committee (CMO) approved the 2016 LDO [Budget Guidelines Law] with an amendment that reduced the budget surplus “target” to 0.5% of GDP. However, the Dilma government proposal that would exclude public investments from this calculation was rejected. Congress still must approve the 2016 LOA [Annual Budget Law].

Want more? Brazilian economist Monica de Bolle associated with the Peterson Institute for International Economics said “We have seen this film before . . . Brazil might have to [again] go to the IMF for a loan [as in 1998 and 2002].

http://economia.estadao.com.br/noticias/geral,vamos-ter-de-pedir-dinheiro-para-o-fmi--diz-monica-de-bolle,1812510
1.3 – PRG asked STF to remove Dep. Eduardo Cunha

To everyone’s surprise [finally] on Wednesday, 16th December, the PGR delivered a request to the STF requesting the Dep. Eduardo Cunha (PMDB-RJ) be removed from his post as President of the Chamber and be stripped of his mandate as federal deputy. Cunha already had three cases before the STF but so far none had been accepted to constitute a formal accusation against him. The PGR’s brief contained eleven counts of misconduct – ten regarding his abuse of the powers of the Chamber President on his own behalf (obstruction of justice) and ONE new accusation ➔ that he had operated a scheme to “approve the use of FGTS funds by firms in return for a R$ 52 million bribe. Reportedly, the firm was Carioca Engenharia received R$ 3.2 billion in FI-FGTS funds for the construction of a new port facility – Porto Maravilha in Rio. The bribe was paid in 36 installments via the Israel Discount Bank and UBS in Switzerland. Also, the Swiss bank recently acquired by BTG (André Esteves) was involved. Reportedly, this scheme was operated by a Cunha ally – Fábio Cleto – CEF Vice-President – recently sacked by Pres. Dilma.

During the Federal Police Operation Catilnárias on 15th December with 53 “search and seize” warrants, evidence was collected and included in the PGR’s brief presented the next day. (See Item 1.4)

Reportedly, Cunha and his allies in the Chamber were commemorating the report read by STF Judge Edson Fachin when the news of the PGR’s request that the STF remove Cunha arrived. The press claimed that he was “mute” for a few minutes in disbelief.
This case went to Judge Teori Zavascki who decided that he will only decide whether or not to oust Cunha after the recess of the judicial branch that begins on 18th December and only really ends after Carnaval after 15th February 2016.

1.4 – Federal Police action against Eduardo Cunha & the PMDB

Early Tuesday morning, 15th December, the Federal Police carried out 53 “search & seize” warrants issued by STF Judge Teori Zavascki – who oversees the Lava Jato investigation (requested by the PGR) in Brasília, Rio, São Paulo, Belém, Recife, Fortaleza, Natal and Maceió – nicknamed Operation Catilnárias. This nickname was derived from an episode in Ancient Rome in 63 BC as a reference to speeches by Cicero against Senator Catilina who was accused of conspiring against the Roman Republic.

In essence, this Operation was related to the Lava Jato investigation against those accused of involvement in the Petrobras corruption/bribe scandal – in an attempt to prevent the destruction of evidence by the accused and their associates.

The most spectacular “S&S” operation was against the President of the Chamber of Deputies Eduardo Cunha (PMDB-RJ). The PF invaded his official residence in Brasília at 6 a.m. and seized documents, computers and his three cell phones. Apparently, Cunha anticipated the PF action and was already awake and fully dressed to receive the PF officers. The PF also did operations at Cunha’s home in Rio and his office in Rio. The PF also visited the Chamber of Deputies and carried out S&S in Cunha’s office, the offices of the Chamber Governing Board and the Chamber e-mail archives.

In spite of the PF action at his residence, Eduardo Cunha went ahead and hosted a luncheon for party leaders. At the Palácio Jaburú, Vice-President Michel Temer received many PMDB leaders on 15th December.

Those persons who were targets of this “search & seize” operation were:

- Dep. Eduardo Cunha (PMDB-RJ) – accused of receiving Petrobras bribes
- Ms. Denise Santos, Chief of Staff to Eduardo Cunha in the Chamber
- Sen. Fernando Collor (PTB-AL) – Petrobras bribes
- Sen. Fernando Bezerra Coelho (PSB-PE) – Petrobras bribes.
- Sen. Renan Calheiros (PMDB-AL) – Petrobras bribes.
- José Wanderley Neto, Former Vice-Governor of Alagoas, Petrobras bribes, ally of Calheiros
- Sen. Edson Lobão (PMDB-MA) – Former Minister MM&E, Petrobras bribes. Sarney ally
- Former Senator Sérgio Machado (PMDB-CE) & Former Pres. of Transpetro, Petrobras bribes
  ➔ Ally of Renan Calheiros
- Tourism Minister Henrique Alves (PMDB-RN), Petrobras bribes – Ally of Michel Temer
- Science & Technology Minister, Celso Pansera (PMDB-RJ) – Ally of Eduardo Cunha
- Dep. Aníbal Gomes (PMDB-CE) – Ally of Renan Calheiros
- Fábio Cleto, former Vice-Pres. of the CEF – Ally of Eduardo Cunha
- Altair Alves Pinto – accused of transporting $$$ by car from SP
- Nelson Bornier (PMDB-RJ), Mayor of Nova Iguaçu, RJ – Ally of Eduardo Cunha
- Dep. Áureo Lidio Ribeiro (SD-RJ) – Ally of Eduardo Cunha
Dep. Alexandre Santos (PMDB-RJ) – Ally of Eduardo Cunha
Wilson Quintella Filho, founder of BTG
SP business leader Lucio Bolonha Funaro – Ally of Eduardo Cunha

Detail: The PGR requested a warrant for the PF to do an S&S operation at the residences of Senator Renan Calheiros, but STF Judge Teori Zavascki refused.

Using considerable “irony”, the strong ally of Michel Temer, Dep. Eliseu Padilha (PMDB-RS), commenting to the press on the Federal Police operation said – “You must remember that no one from the PMDB has been arrested”. He could have added “so far, not yet”.

PMDB “enraged” – The first result of this PF action was to enrage the PMDB even more – and generate more demands from state PMDB executive committees to anticipate the party’s national convention from March to January to formalize the “break off” with the PT and the Dilma government. This would mean that the PMDB federal appointees would leave (abandon), resign from the Dilma government and join the impeachment coalition. Those who decline to leave the Dilma government would be “shunned” by the PMDB and if and when Michel Temer becomes president they would be “left out” in the cold”.

Michel Temer reportedly is convinced that the Dilma government had been informed that the Federal Police Operation Catilnárias would happen this week (apparently Eduardo Cunha also had prior information as well). Reportedly, several Dilma staff advisors commemorated the “imminent action against Eduardo Cunha”. Temer thinks that Pres. Dilma knew about this operation when she fired Fábio Cleto (linked to Cunha) from his CEF job on 10th December.

Pres. Dilma “celebrated” her 68th birthday on 14th December – but with no “party, cake of festivities”. Brazilians consider that a person’s birthday period can become an “inferno astral” [an astrological hell] – that seems to be case here.

1.5 – Chamber Ethics Council

On Tuesday, 15th December, the same morning as the Federal Police Operation Catilnárias (See Item 1.1), the Chamber of Deputies Ethics Council met to hear the report of the “new” reporter Dep. Marcos Rogério (PPS-RO) and vote on same ➔ whether (or not) to open an expulsion process against Chamber President Eduardo Cunha (PMDB-RJ). After the report was read (two pages), Cunha’s allies on the Ethics Council once again tried procedural delaying tactics – but this time the Council President Dep. José Carlos Araujo (PSD-BA) put to the question to a vote and 11 council members (a majority) said “no”. Immediately, the Council President put the report to a vote and the same 11 approved the continuation of this process against Cunha.

1.6 – Senate Ethics Council

On 15th December, the President of Senate Ethics Council, Sen. João Alberto Souza (PMDB-MA) accepted the request to deliberate the expulsion ( cassação) of Sen. Delcídio do Amaral (PT-MS) for lack of parliamentary decorum because of his recent accusations regarding obstruction of justice
and witness tampering that led to his arrest and imprisonment. Souza convoked the Senate Ethics Council to meet on 17th December to select a reporter on this case.

Also Souza accepted the case against Senators Randolfe Rodrigues (Rede-AP) and João Capiberibe (PSB-AP) regarding a cassação request from 2013. **Detail:** Reportedly, Souza retaliated against Randolfe because he had requested the constitution of the process against Delcídio. Also, both Senators Randolfe and Capiberibe are enemies of former Senator José Sarney (PMDB-AP) and Souza is a long-standing ally of Sarney.

### 1.7 – New Ibope poll

On 15th December, an *Ibope* poll conducted for the CNI was released. This survey was conducted on 4-7 December among 2,002 voters in 143 municípios with a two-point margin of error. The previous poll was conducted on 18-21 September.

This new *Ibope* poll showed a “slight” decline in President Dilma’s approval ratings of the Dilma government, back to single digit (10% - 9%) and disapproval of Dilma’s performance as President remained at 82%.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dilma Gov’t.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excellent/Good</td>
<td>63%</td>
<td>36%</td>
<td>12%</td>
</tr>
<tr>
<td>Regular</td>
<td>29%</td>
<td>36%</td>
<td>23%</td>
</tr>
<tr>
<td>Bad/Terrible</td>
<td>7%</td>
<td>27%</td>
<td>64%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pres. Dilma</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approve</td>
<td>79%</td>
<td>51%</td>
<td>19%</td>
</tr>
<tr>
<td>Disapprove</td>
<td>17%</td>
<td>43%</td>
<td>78%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>4%</td>
<td>6%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Regarding whether voters have confidence in Pres. Dilma, the negative response in December was 78% *versus* 77% in September. In December, 65% said that the rest of Dilma’s mandate would be bad or terrible *versus* 63% in September.


### 1.8 – Lava Jato

This week, Lula’s “friend” José Carlos Bumlai (businessman and cattle farmer) was formally accused and indicted in the *Lava Jato* investigation. Reportedly, he participated in a “scheme” together with the Banco Schahin whereby Schahin Engenharia acquired a Petrobras contract of US$ 1.6 billion to operate an offshore drilling platform. Bumlai received a R$ 12.1 million “loan” from the Banco Schahin (that was never repaid) on the condition that he pass this money on to the PT. Bumlai...
admitted that he passed these funds on to the PT via the then national treasures Delúbio Soares and his successor João Vaccari Neto. Delúbio was convicted and sentenced at the STF in the mensalão scandal and Vaccari Neto was convicted and imprisoned in the Lava Jato investigation.

Others accused together with Bumlai were his son and daughter-in-law (Mauricio de Barros Bumlai and Cristiane Doderi Bumlai); Fernando Baiano & João Vaccari Neto; Salim Schahin, Milton Taufic Schahin & Fernando Schahin; and former Petrobras directors Nestor Ceveró, Jorge Zelada & Eduardo Muse.

Federal prosecutors affirmed that Bumlai was “an operator for the PT”.

Odebrecht ➔ On 15th December, the STJ denied (4-to-a) a habeas corpus request for Marcelo Odebrecht who has been imprisoned in Curitiba for 7 months. Recently, he resigned his post as CEO-President of his family firm – one of the largest construction firms in Brazil.

Ceveró testimony – On 16th December, part of the plea bargaining testimony by Nestor Ceveró was released. He affirmed that he passed US$ 6 million to PMDB Senators Renan Calheiros (AL) and Jader Barbalho (PA) via bribes received from off shore drilling platform contracts and US$ 1.5 million to Sen. Delcídio do Amaral (PMDB-MA) via the “over invoicing” scheme involved in the acquisition of the Pasadena (Texas) refinery. Ceveró confirmed that Delcidio was “on the take” from Petrobras ever since 2001 (FHC government). These bribe payments were made to the three senators by Ceveró in order to gain their support to maintain him in his Petrobras post.

André Esteves was released from prison on 17th December by STF Judge Teori Zavascki to “house arrest” with strict conditions ➔ not to leave his home, present himself to a judge in Rio every 15 days, withdraw totally from the activities of TBG and other firms where he was involved, no contacts with other Lava Jato accused, and no overseas travel (surrender his passport). Zavascki denied “freedom” for the other accused in the same episode – Sen. Delcídio Amaral and his chief of staff.

1.9 – Anti- and Pro-Dilma street mobilizations

On Sunday, 13th December, street anti-Dilma protests were organized in 47 cities in Brazil. In addition to “anti-Dilma” there were also “anti-Cunha” posters. However, the number of demonstrators was less than in similar demonstrations in March, April and August 2015.

On Wednesday, 16th December, a number of “pro-Dilma” street demonstrations were mobilized by CUT and other labor union organizations plus “social movements”. The latter counted fewer persons than the anti-Dilma street protests on 13th December, and fewer than in the other pro-Dilma demonstrations earlier in 2015.

1.10 – Joaquim Levy, on his way out?

On Wednesday, 16th December, the Valor newspaper published a report that claimed that Finance Minister Joaquim Levy is about to resign his key post in the Dilma government – because he was not even consulted by this government regarding the decision to reduce the 2016 budget surplus.
target from +0.7% to +0.5%. Reportedly, Pres. Dilma had exclaimed “A budget target in one thing, but **Bolsa Família** is another thing”. **BUT** the reporter on the Joint Budget Committee in Congress, Dep. Ricardo Barros (PP-PR), plans to cut R$ 10 billion out of **Bolsa Família** in the 2016 budget. See ➤ [http://exame.abril.com.br/brasil/noticias/joaquim-levy-pede](http://exame.abril.com.br/brasil/noticias/joaquim-levy-pede)

Finance Minister Levy & Pres. Dilma

**However**, Levy denied that he is “on his way out” of the Dilma government. Reportedly, he will remain until she finds a suitable replacement and/or the current political crisis “calms down” – probably by 31st December 2015.

In search of a Levy replacement, the Dilma government thinks that another “market friendly” name would be impossible and is considering an “in house” name – perhaps current MDIC chief, Senator and business leader Armando Monteiro (PTB-PE).

When/if Levy resigns; the immediate consequence would be a downgrade by Moody’s.

➤ **Stay tuned!!!!**

1.11 – Fiscal Adjustment

On 15th December Congress approved two measures in support of the “fiscal adjustment” proposed by the Dilma government ➤ 1) The Senate approved (by a 41-to-27 vote) the proposal to permit the “repatriation” of financial resources held overseas by Brazilians (under certain conditions). These funds had been transferred overseas **without** registry with the SRF or the Central Bank. It is estimated that some R$ 319 billion are held in foreign bank accounts by Brazilians **but** no one knows the volume of funds that might be repatriated. 2) The Chamber maintained Pres. Dilma’s veto of the proposal to allow a “second retirement” of private sector workers who have already retired (via INSS) but decide to continue working and contributing to INSS. The latter would then have a second retirement with a higher INSS benefit payment. It was estimated that this would add an additional R$ 70 billion to the already large (and increasing) social security deficit.

1.12 – Renan vs. Temer

Also on “super-Wednesday”, the PMDB national executive committee met in Brasília, presided over by PMDB Vice-President Sen. Waldir Raupp (RO) and decided (on a 15-to-2 vote) that any “new” requests by deputies to ”switch parties” to join the PMDB would have to be approved by the party national executive committee. This meeting had been convoked by the national PMDB President
Michel Temer. This was a decision to block attempts by Dilma government operatives to temporarily “enlarge” the PMDB delegation in the Chamber whereby these “switchers” would be able to destitute Dep. Leonardo Quintão (PMDB-MG) in order to reinstate Dilma’s ally Dep. Leonardo Picciani (RJ) as PMDB floor leader in the Chamber. Picciani was ousted from this leadership position on 9th December by a petition signed by 35 of the 69 PMDB federal deputies and Quintão was immediately elected as Picciani’s replacement.

Senate President Renan Calheiros criticized Temer for this decision by the PMDB national executive committee as “authoritarian” and referring to Temer said “the party does not have an owner [dono]”. A few hours later, Temer responded via a note released by the PMDB national executive committee – agreeing with Renan that “the PMDB indeed does not have any owners, nor does it have any coronéis [traditional rural bosses]” – a dig at Renan who comes from a very traditional, rural state in the Northeast, where coronéis are very common as political bosses.

Renan even referred to PMDB icon Ulysses Guimarães, saying this “Temer episode” probably made “Ulysses thrash around in his grave”. The PMDB note replied that “everyone knows that Ulysses Guimarães died in a helicopter crash along the SP coast and that his body was never found and remains at the bottom of the ocean [not in a grave]”. This note also stated that “the PMDB national executive committee is the collegiate organ of the party with total competence to make decisions to preserve the party from spurious maneuvers”.

Many observers have affirmed that because of his many “pro-Dilma” actions, Renan is aligned with the President – citing his “brief” submitted to the STF regarding impeachment proceedings that the Senate could reject the impeachment decision made by the Chamber (that was rejected by STF Judge Fachin). However, others affirm that he is distancing himself from the President and on 16th December affirmed that there would be no special convocation of Congress during the traditional recess period.

Want more? Reportedly, Pres. Dilma’s operatives mobilized several PMDB cabinet ministers – Kátia Abreu (Agriculture), Marcelo Castro (Health) and Celso Pansera (Science & Technology) to inform those anti-Picciani deputies that all their federal government appointees and budget amendments would be annulled if they did not sign a pro-Picciani petition. On 17th December, Deputy Picciani filed a petition with the Chamber General Secretariat with 36 of the 69 PMDB deputies in his favor. However, under instructions from Chamber President Eduardo Cunha (PMDB-RJ) the General Secretariat will “slowly” and methodically “verify” these signatures. Detail: This bureaucratic exercise was surpassed by Picciani and he reassumed his post as PMDB floor leader. Instead of “party switchers”, the table was turned (over) by two PMDB deputies from Rio who were on leave to occupy posts in the Rio state and Rio city governments. They were “released” by the governor and mayor, reassumed their seats in the Chamber and replaced their “anti-Picciani” alternates.
Floor leader of what? Picciani will remain PMDB floor leader during the Congress recess period until next February. By then, Vice-President Michel Temer and other anti-Dilma leaders will have “worked on” PMDB deputies so that when the PMDB deputies caucus again in February to elect a new floor leader, an anti-Picciani majority should be mobilized. ➔ Stay tuned!!

1.13 – Mensalão tucano (in MG)

Also on Super Wednesday, a first level state court in Belo Horizonte convicted and sentenced former PSDB-MG governor Eduardo Azeredo to 20 years and 10 months in prison. In his failed reelection attempt in 1998, Azeredo and his allies used the same scheme that was copied by the PT in 2003-2004 ➔ false advertizing contracts with the same firms owned by Marcos Valério (SMP&B) and false loans via the now defunct Banco Rural to finance his campaign. In 2003-2004, the PT used this same scheme to garner funds to sustain “monthly allowance” to allied parties to guarantee the “correct” voting patterns of their deputies in the Chamber.

1.14 – Giant Postalis fraud

On 17th December, the Federal Police launched an operation a giant fraud scheme in Postalis – the pension fund for Brazil's postal service – that could reach R$ 180 million “ripped off” by the administrators of this pension fund. Similar “rip offs” have already been discovered in other pension funds – Petrobras, Eletrobras, Banco do Brasil, etc.

This scheme operated between 2007 and 2011 and was operated by Fabrizio Dulcetti Neves. He has an Interpol arrest warrant issued because it is suspected that he fled overseas (perhaps in the US). The scheme involved the purchase of bonds on the US market (an initial valuation of Postalis funds) and then these bonds were transferred to “fiscal havens”. This Federal Police operation also received court issued confiscation orders for real estate (mostly in SP) and other assets of the accused. See ➔ http://www1.folha.uol.com.br/poder/2015/12/1720145-pf-investiga-fraude-de-r-180-mi-no-postalis-fundo-de-pensao-dos-correios.shtml

2 – FOREIGN RELATIONS & TRADE

2.1 – Argentina eliminates all import barriers

Good news for Brazilian exporters! Pres. Mauricio Macri removed all barriers to Brazilian exports to Argentina. Similarly, he removed all export tariffs – on wheat, corn, soy and beef. He also rehabilitated the Argentine statistics dept. (like the IBGE in Brazil) that had been forced to “fudge” [falsify] inflation data for Pres. Cristina Kirchner that had a very negative impact on the working classes regarding salary increases. Macri also lifted all controls over operations in US dollars and let the FX rate “float” – of course with necessary interventions by the Central Bank.

New Ambassador to Brazil ➔ On 15th December, Pres. Macri’s new foreign minister Susana Malcorra announced that Carlos Magariños (53) would be Argentina’s new ambassador to Brazil. He was Secretary for Industry & Mining under Pres. Menem and commercial attaché in the embassy in Washington (1993-1997). Also, he was the Director-General of UNIDO (UN Industrial Development

2.2 – Brazil “stable on HDI

On 14\textsuperscript{th} December, the UNDP released its 2015 HDI-Human Development Index. The HDI is based on three basic indicators – income per capita, level of education and life expectancy. Compared with the 2014 index (based on 2013 data) Brazil advanced slightly on the final score (0.752\rightarrow 0.755), but was down one rank in 2015 (based on 2014 data) – 74\textsuperscript{th} \rightarrow 75\textsuperscript{th} out of 188 nations). What happened? Although Brazil advanced in terms of level of education (7.4 years to 7.7 years of schooling) and life expectancy (74.2 to 74.5 years), based on the 2014 data, per capita income was down by -0.73\% (US$15,288.00 \rightarrow US$ 15,175.00). Brazil was surpassed by Mexico (74\textsuperscript{th}) and Siri Lanka (73\textsuperscript{rd}).

See \url{http://brasil.estadao.com.br/noticias/geral,brasil-fica-em-75-no-ranking-do-idh--atras-do-sri-lanka,10000004754}

See \url{http://hdr.undp.org/en/2015-report}

2.3 – Vatican “pardons” Padre Cicero

After he was excluded from the Roman Catholic Church (excommunicated) in 1896, on 13\textsuperscript{th} December the Vatican rehabilitated (pardoned) one of Brazil’s most famous Church heroes (icons) Padre Cicero who reportedly worked many “miracles” in Juazeiro, Ceará – where thousands of pilgrims visit his sanctuary even today in search of miracle cures. Finally the Vatican “woke up” and decided to “pardon” Padre Cicero who died in 1934. His principal “miracle” was that when he gave communion to a faithful woman, the host would turn into blood.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – Retail Sales up in October

On 16\textsuperscript{th} December, IBGE released data on retail sales in October \rightarrow +0.6\% MoM and -5.6\% YoY. This was quite surprising given the decline in retail sales over 8 consecutive months – accumulating a decline of -3.6\% in 2015. The economists surveyed by Bloomberg News predicted a decline of -1.1\% in October. Supermarket sales were up by +2.0\% MoM
5.2 – Unemployment declined in November

On 17th December, IBGE released PME data for unemployment in six metropolitan areas in November ➔ 7.5%, down from the 7.9% posted in October. The economists consulted by Bloomberg News predicted 8.0%. According to Thiago Xavier, an analyst for Tendências consultants, October represents a seasonal “blip” – without which the PME would have posted 8.1%. Still, November unemployment at 7.5% was 2.7 points higher than the 4.8% posted in November 2014. The PME was the highest for the month of November since 7.4% was posted in 2009.

However, average workers’ salaries in November were down by -1.3% from October. This means that most to the new hires in November were for lower salaries than verified in October ➔ more persons employed but earning less.

5.3 – CSN shutdown

On 17th December, CSN announced that it might shut down one of its blast furnaces in early 2016 due to a declining demand for steel in Brazil. If this decision is implemented, some 1,500 direct and 1,500 indirect jobs would be lost. The same decision was taken by Usiminas at its steel mill in Cubatão, SP (ex-Cosipa).