Brazil Focus –
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Weekly Report –
Dec. 05-11 2015

Looking Ahead  What to watch for?

• 13th Dec. – MBL-Movimento Brasil Livre plans anti-Dilma protests in several cities
• 14th Dec. – Pres. Dilma Rousseff ➔ 68th birthday
• 15-16 Dec. -- Last meeting of the Fed in 2015; should increase basic interest rates
• 16th Dec. – Supreme Court to decide impeachment “ritual”
• 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 ➔

1 - POLITICS

1.1 - Impeachment

On Wednesday, 2nd December, the President of the Chamber of Deputies, Dep. Eduardo Cunha (PMDB-RJ) accepted an impeachment request formulated by three jurists from SP and launched the impeachment process against Pres. Dilma Rousseff. The next step was for the political parties represented in the Chamber indicate their respective deputies to participate in the special committee (total 65 deputies) that will deliberate this impeachment request (plus their respective alternates). Each party will have a number of deputies on this committee proportional to the size of its delegation in the Chamber – the largest parties (PMDB & PT) with have 8 each down to the smallest parties that will have one each.

At first, the deadline for the party floor leaders to present their respective lists of deputies/alternates was 6 p.m. Monday, 7th December, but this was extended to Tuesday afternoon. However, in a clear violation of the “separation of powers” [Montesquieu], on Monday, Pres. Dilma called in all the floor leaders on the parties “supposedly” participants in her support coalition in the Chamber and dictated to each one the names of the [pro-Dilma] deputies that each leader should include on each party’s “list”. This list of names [party-by-party] was published by the press at the same time that the President’s office “leaked” the content of a letter by Vice-President Michel Temer (PMDB-SP) to Pres. Dilma where he detailed several examples of her total lack of confidence in him and his PMDB. The President’s intervention” in the Chamber plus this letter angered many deputies from the President’s party coalition and an alternate slate of 39 [anti-Dilma] deputies was composed. Under the Chamber impeachment procedures, such “lists” must be approved by the full Chamber – so on Tuesday afternoon Chamber President Eduardo Cunha put this question to a vote – List A versus List B – BUT by a secret ballot with polling stations set up along one wall of the Chamber. Cunha alleged that this was an “election” and that the Chamber’s internal rules require a secret ballot for all elections in the Chamber – like his own election as Chamber President on 1st February 2015.

Photo: Pedro Ladeira/Folhapress
Obviously, the secret vote favored the anti-Dilma group in the Chamber and the pro-Dilma group protested. In a scene reminiscent of scenes of physical [bodily] conflict in the national legislatures of South Korea and Taiwan, deputies began attacking each other (fisticuffs & aggression) and pro-Dilma deputies blocking the access of anti-Dilma deputies to the voting booths. Even some of the electronic voting machines inside these booths were ripped from the wall and damaged. Finally, the aggressors were subdued and the vote completed. The result was a major defeat for Pres. Dilma and her group. The alternate [anti-Dilma] slate received 272 votes contra 199 for the pro-Dilma slate – with 42 not voting.

This means that once the special impeachment committee is installed that the anti-Dilma group would have a majority and that any attempt to convoke a special (extraordinary) session of the Chamber in January would be defeated. This vote clearly showed that Pres. Dilma does not have a majority in the Chamber.

However, as might be expected, the pro-Dilma group did not accept this defeat and the PCdoB requested an injunction at the STF – with two considerations: 1) That in spite of the internal rules in the Chamber, this secret vote is unconstitutional; and 2) That the 1950 Law that regulates impeachment in Brazil is “out dated” and its prescribed ritual is not clear. That same evening (7th December) the newest STF judge (chosen by lottery) issued a temporary injunction suspending the installation of this special committee until the full STF could deliberate this question (probably on 16th December). On Wednesday, the Chamber was to ratify the members of the other (smaller) parties not included in the lists approved the day before.

All this had a negative impact on Pres. Dilma’s strategy to “get this impeachment thing over as soon as possible” – and means that this impeachment committee will only get down to business after the congressional recess (and Carnaval) the week on 15th February 2016.

Remember ➔ when the full Senate had to decide the fate of Senator Delcídio do Amaral (PT-MS) on 25th November – to confirm or reject the arrest warrant issued by the STF – Senate President Renan Calheiros tried to impose a secret vote (based on the Senate’s internal rules) – BUT a large majority of senators called for a vote to decide this question and it was decided that the vote would be “open” (not secret) and the STF arrest warrant was upheld (maintained).
In the case of the Chamber vote on 8th December, the pro-Dilma group perceived that they did not have enough votes to request a floor vote to impose an “open election” so they appealed to the STF instead.

**More bad news for Dilma** ➔ Pres. Dilma desperately wants approve urgent legislation for “her” fiscal austerity measures before Congress goes on its end-of-year recess BUT the anti-Dilma parties have vowed to obstruct all proceedings in the Chamber and all attempts to call of votes – until the STF makes its decision on 16th December.

**PMDB reacts** ➔ On 9th December, Dep. Lúcio Vieira Lima (PMDB-BA) circulated a petition and collected signatures of 35 of the PMDB’s 66 deputies to remove the party’s floor leader Leonardo Picciani (PMDB-RJ). This petition was filed at the Chamber and the PMDB caucus quickly elected Dep. Leonardo Quintão (PMDB-MG) to be the new floor leader. This reaction was because Picciani had become Dilma’s “PMDB boy” and did her bidding without consulting his PMDB colleagues. Former Civil Aviation Ministers – Eliseu Padilha (PMDB-RS) and Moreira Franco (PMDB-RJ) helped articulate this list (that was signed by Chamber President Dep. Eduardo Cunha. Vice-President Michel Temer was informed of this action and granted his support. **Detail:** On 1st February 2015, Picciani was elected PMDB floor leader by a one vote margin over Dep. Lúcio V. Lima. **However,** RJ Governor Luiz Pezão and RJ Mayor Eduardo Paes have each released one PMDB federal deputy to return to Brasilia and resuscitate their seats in an effort to try to reverse the decision of the PMDB caucus the ditched Picciani.

**Want more?** In spite of Michel Temer having counseled Pres. Dilma to “cease and desist” from any further “meddling” and “intromissions” within the PMDB, the president’s group is trying to provoke more “party switching” of deputies to the PMDB to “construct” a new majority that would be able to resuscitate Dep. Leonardo Picciani as floor leader. Under the guidance of Temer, any new “switchers” would have to be authorized by the party’s national executive committee. Dep. Lúcio V. Lima quipped “Our party is not a motel!”

**Still more?** Many PMDB deputies are articulating to anticipate the party’s national convention from March to January 2016. This is considered to be the “breaking point” – where the party would formally break off its relationship with the PT and the Dilma government and oblige **ALL** PMDB appointees to resign their posts (ministers down to the fifth echelon) in this government.

In 2002, this same “break off” occurred with the PFL *vis-à-vis* the government of Pres. Fernando Henrique Cardoso (PSDB-SP). The PFL joined the coalition that elected Cardoso in 1994 and reelected him in 1998. **However,** on 1st March 2002, the Federal Police invaded the office of the husband of then Governor Roseana Sarney (PFL-MA) in São Luiz and “discovered” R$ 1.3 million in cash. They piled the cash on a table and the photo was “front page” in all newspapers and magazines plus the evening TV news programs.

At that point, Ms. Sarney was the PFL’s pre-candidate for President and was nearly tied with Lula in the polls, while the PSDB pre-candidate, Sen. José Serra, was trailing in a distant third rank. As a result, Roseana Sarney declined in the polls and decided to become a candidate for the Senate. The PFL blamed Serra for instigating this episode and decided that all its appointees in the Cardoso government would exit. Back then, the PFL was a very cohesive and disciplined party, and **ALL** its appointees followed the party’s decision and left the Cardoso government - except Marco Maciel (PFL-
PE – who had been elected as Cardoso’s Vice-President. The PFL declared that in 2002 it would not launch a presidential candidate and would not join any presidential coalition. In part, this episode contributed to election of Lula in October 2002 and the defeat of the PSDB candidate José Serra.

Conclusion ➔ In Brazilian politics, sometimes history repeats itself.

Ciro Gomes – A “self-proclaimed” Brazilian political leader, Ciro Gomes (PDT-CE) was a dinner guest of Pres. Dilma on 10th December (after she returned from B. Aires). This invitation was articulated by Gov. Luiz Fernando Pezão (PMDB-RJ). Pezão leads the PMDB in the state of Rio against the leadership of Michel Temer and his anti-Dilma group. For the time being, Pezão is pro-Dilma because his state is in great financial difficulty and needs some federal funds – from a deficit-ridden government??

Ciro Gomes was Pres. Itamar Franco’s last Finance Minister (August-December 1994) and claims to be the “father of the Real Plan”. He had been elected governor of Ceará in 1990 (the only PSDB governor in that election). After an “internship” with Professor Mangabeira Unger in Harvard (1995-1996), he returned to join the PCB and ran for President in 1998 and polled 12%. He again polled 12% in the 2002 elections. After supporting Lula on the second round, in 2003 he was appointed Minister of National Integration. He was able to elect his brother, Cid Gomes PSB governor of CE in 2006 and 2012. In 2013, they organized a new political party – PROS – to support Dilma’s reelection in 2014 but in 2015 the brothers joined the PDT.

Gomes counseled Dilma to “fight back” against the PMDB and Michel Temer and use all the political powers that the President has at her disposal and that he would help coordinate this effort. He is also a self-proclaimed pre-candidate for President [again] in 2018. Many PMDB Senators quickly affirmed that “If she uses Ciro Gomes to coordinate her political strategy, we will no longer support the President”. ➔ Stay tuned!!!

1.2 – Eduardo Cunha & the Chamber Ethics Council

As you have read in previous issues of Brazil Focus, the Chamber Ethics Council has been deliberating the corruption accusations against the Chamber President Dep. Eduardo Cunha (PMDB-RJ) for several weeks and the reporter, first term deputy Fausto Pinato PRB-SP) has been trying to read his report that calls for the investigation against Cunha to continue. Using his agenda (and other) powers and prerogatives as Chamber President plus his allies on the Council, Cunha has manipulated the council to produce delays. Again, on 9th December, Pinato was ready to read his report, but a directive arrived from the Chamber governing board (Mesa Diretora) presided over by the Chamber Vice-President Dep. Waldir Maranhão (PP-MA) – an ally of Cunha – determining that Pinato be removed as reporter because he is part of the same political alliance as Cunha and directed the council to select another reporter.

The Ethics Council President – José Carlos Araujo (PSD-BA) - tried to directly appoint a substitute for Pinato ➔ Dep. Zé Geraldo (PT-BA) but the other council members protested that he had not followed “Council procedures” – as had been used when Pinato was selected – a lottery to chose three council members and then he (the Council President) would choose one of the three.
Araujo accepted this consideration and Dep. Marcos Rogério (PDT-RO) was selected to be the new reporter. He affirmed that he will present his report to the Council on 15th December.

**Stay tuned!!!**

**Perceiving real threats** that the STF might remove him from the Presidency of the Chamber, on 9th December, Eduardo Cunha sent a detailed defense of his case to the STF rebutting the accusations against him.

Several anti-Cunha parties have delivered requests to the PGR Rodrigo Janot requesting that he ask the STF to remove Cunha. To this end, Deputies José Carlos Araújo and Fausto Pinato visited the PGR to detail Cunha’s maneuvers to delay the deliberations of the Ethics Council.

Again, on 10th December, the session of the Ethics Council was “stretched out” (with some fisticuffs) so that the report by the new reporter was not read. They will try again on 15th December – the last meeting of this Council in 2015.

### 1.3 – Operation *Vidas Secas*

On 11th December, the Federal Police carried out another investigation **Operation Vidas Secas – Sinhá Vitória** – corruption (R$ 200 million “siphoned” off from R$ 680 million contracts) by construction firms involved in contracts for the *transposição* of water from the San Francisco River to irrigate areas in Pernambuco, Paraiba and Rio Grande do Norte. **Four** executives of large construction firms involved were arrested – Elmar Varjão, President of OAS; and executives of Coesa Engenharia, Barbosa Melo and Galvão Engenharia. Several OAS and Galvão executives have already been arrested, convicted and sentenced in the *Lava Jato* investigation.

The former OAS President Léo Pinheiro was sentenced to 16 years imprisonment by Judge Sérgio Moro. OAS is in a very difficult fiscal situation and has requested a court-administrated bankruptcy in the US and Brazil.

### 1.4 – Temer “chats” with Dilma

On Wednesday evening, 9th December, Vice President Michel Temer arrived at the Planalto Palace around 8 p.m. for a “chit-chat” with Pres. Dilma. She is trying to bring him “on board” her strategy to avoid impeachment. Temer remained firm in his criticisms enumerated in his letter to Pres. Dilma and he affirmed that he would nothing (publically) either in favor or against her impeachment. He clearly stated that he would continue to perform his “constitutional duties”.

### 1.5 – Court breaks bank/fiscal secrecy of Lula’s son & Gilberto Carvalho

At the request of federal prosecutors, the federal judge in Brasília investigating the *Zelotes* scandal (CARF) broke open the bank and fiscal secrecy of Lula’s son – Luís Claudio Lula da Silva and his firm LFT Marketing Esportivo plus Lula’s Secretary-General of his Presidency – Gilberto Carvalho.
2 – FOREIGN RELATIONS & TRADE

2.1 – Mauricio Macri sworn in as Argentine President

On Thursday, 10th December, Mauricio Macri was sworn in as Argentina’s new president ending 12 years of the Kirchner group in power. President Dilma flew to Buenos Aires to participate in these ceremonies.

However, a very stubborn and haughty Cristina Fernandez Kirchner opted not to “pass the presidential sash” to Macri, and as they say “left by the back door of the Presidential residence - the Casa Rosada Palace. In March 1985, outgoing Brazilian President João Batista Figueiredo (the last of five military presidents) decided not to “pass the sash” to Vice-President José Sarney (who was sworn in as Vice-President awaiting the recovery of president-elect Tancredo Neves) – and left by the back door of the Planalto Palace.

The Argentine courts determined that Cristina’s mandate expired at midnight on Thursday, 10th December, and thus before Macri was sworn in (in the Argentine Congress) at noon, the Senate President Frederico Pinedo (a Macri ally) temporarily occupied the Presidency.

Bolivian President Evo Morales arrived in B. Aires on Wednesday, 9th December, in time to participate in the ceremony at the Casa Rosada where Cristina Kirchner unveiled a bust (statue) of her deceased husband, former President Nestor Kirchner.

Pres. Dilma and other heads of state who arrived “just in time” on Thursday morning, 10th December were obliged to have their planes “get in line” to land at the B. Aires airport – with no priority. This was a nasty decision made my Cristina Kirchner’s out-going Defense Minister to not issue an order for these planes to have landing priority.
As a result, Pres. Dilma (ant others) did not arrive at the Argentine Congress building in time for the swearing in of Mauricio Macri at noon. However, they did make the ceremony at the Casa Rosada. Pres. Dilma returned straight away to Brasília and spent about two hours in B. Aires.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

4.1 – Port auction

On Wednesday, 9th December, ANTAQ held an auction for port areas on the SP stock market. The government had estimated a return of R$ one billion, but only three port areas in Santos, SP were sold for a total of R$ 430.6 million. Another port auction will be held in March 2016.

5 - ECONOMICS

5.1 – November Inflation

On Wednesday, 9th December IBGE announced the IPCA for November ➔ +1.01% mostly due to increases in food and fuel prices. As a result, the 12-month accumulation of the IPCA in snow +10.44% -- the highest such accumulation in 12 years since November 2003 (+11.02%) – Lula’s first year in office. In October 2015, the IPCA was +0.82% and in October 2014 the inflation rate was +0.51%. This increase in the IPCA will pressure Copom to increase the Selic rate in its first 2016 meeting on 19-20 January. On 10th December, Central Bank President Alexandre Tombini indicated that Copom might increase the Selic rate in January.

5.2 – Moody’s threatened to downgrade Brazil

On 9th December, Moody’s Investors Service announced that it had placed Brazil’s risk rating “on review” for a downgrade [soon] – because of the rapid deterioration of Brazil’s economy. The budget deficit is approaching 10% of GDP and the gross debt is approaching 70% of economic output. In a note, Moody’s affirmed Brazil’s economic and fiscal conditions have worsened rapidly and probability of a reversal of this scenario in the next two or three years is “low”. Samar Maziad, Senior Sovereign Analyst at Moody’s said – “We’ve already seen significant deterioration; we don’t see how these trends can change quickly”. ➔ Stay tuned! [http://www.wsj.com/articles/moodys-places-brazil-on-review-for-downgrade-1449694776]

On 10th December, the Ibovespa was down by 1% -- after the Moody’s announcement. Deutsche Bank affirmed that after another downgrade that investors might remove up to US$ 12
billion from Brazil – others predict up to US$ 20 billion. In turn, on 10th December, Bank of America stated that “more downgrades are in the offing”.

5.2.1 – Want more? ➔ Fitch

The Dilma government is more “apprehensive” regarding a possible downgrade by Fitch Ratings than by Moody’s – because a Fitch downgrade might occur before the end of December (2015), whereas a Moody’s downgrade might occur in “early” 2016. According to government staffers, Fitch has already advised the Dilma government economic team that a downgrade is “near”.

Markets and the Brazilian private sector has already “absorbed” [incorporated] an eventual downgrade by Fitch and/or Moody’s into their strategies as a fait accompli. With a second downgrade to junk bond status (the first was S&P in September 2015), market analysts calculate that there will be between US$ 2 billion and US$ 5 billion in capital flight from Brazil – depending on the political scenario at that moment and that this would impact the FX rate.