Brazil Focus –
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Weekly Report –
June 20-26 2015

Looking Ahead ➔ What to watch for?

- 29th June -- June IGP-M ➔ % ➔ +% for 12-month period
- 30th June -- Public Account data for May
- 28-30 June -- Pres. Dilma Rousseff to visit NY & 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]
- 6th July -- FGV to announce IGP-DI for June ➔ %
- 7th July -- IBGE to release IPCA inflation data for June ➔ %
- 9th July -- State Holiday in SP – [“Commemorate” defeat, 1932 Revolution]
- 9th July -- IBGE – Industrial employment in May ➔ -0.% MoM
- 10th July -- IBGE ➔ Industrial Production in May
• **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 ➔ +0.0% 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, +0.0% YoY
• **22nd July** -- IBGE to release July ICPA-15 inflation data ➔ +0.0% *versus* +0.0% in June

### 1 - POLITICS

#### 1.1 – New *Datafolha* Poll

On 17-18 June, *Datafolha* conducted a poll among 2,840 voters in 174 *municípios* with a two-point margin of error. The previous *Datafolha* poll was conducted on 9-10 April. This latest poll was published in the *FSP* on 20th June.

<table>
<thead>
<tr>
<th>Evaluation of Dilma</th>
<th>Good/Excellent</th>
<th>Regular</th>
<th>Bad/Terrible</th>
<th>DK/NR</th>
<th>Average Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar</td>
<td>Aug</td>
<td>Feb</td>
<td>Aug</td>
<td>Dec</td>
<td>Feb</td>
</tr>
<tr>
<td>65%</td>
<td>35%</td>
<td>41%</td>
<td>38%</td>
<td>42%</td>
<td>23%</td>
</tr>
<tr>
<td>27%</td>
<td>42%</td>
<td>37%</td>
<td>38%</td>
<td>33%</td>
<td>33%</td>
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<tr>
<td>7%</td>
<td>22%</td>
<td>21%</td>
<td>23%</td>
<td>24%</td>
<td>44%</td>
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<tr>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
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The President’s rejection rate ("Bad/Terrible") increased 60% ➔ 65%. This was the second worst result (since 1985) and only surpassed by the 69% rejection rate posted by Pres. Fernando Collor in September 1992, just days before he was impeached by the Chamber of Deputies. Her approval rate ("Good/Excellent") declined 13% ➔ 10% from the April poll.

#### Breakdown by Region & Income

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Income in Minimum Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pres. Dilma</td>
<td>Total</td>
</tr>
<tr>
<td><strong>Good/Excel.</strong></td>
<td>10%</td>
</tr>
<tr>
<td>Regular</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Bad/Terrible</strong></td>
<td>65%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>1%</td>
</tr>
</tbody>
</table>

The differences by level of income are very small [general agreement] ➔ in the lowest income bracket, 62% rejected Pres. Dilma and in the highest income bracket the rejection rate was 66%. The differences by region were a bit larger ➔ in the Southeast her approval rate was 7% and 14% in the Northeast. In spite of the 9-state Northeast region having given her a large volume of votes in October
2014 (55% of the valid vote), in June 2015 her rejection rate was 58% and her approval rate only 14% ➔ still her “strongest” support” region in this Datafolha poll.

This sample was very pessimistic about the future ➔ 1) 53% said the economic situation will get worse; 2) 77% said that the inflation rate will get worse; and 3) 73% said that unemployment will increase

This very large rejection rate for Pres. Dilma comes at a very critical juncture for her government:
1) The TCU did not approve her 2014 accounts;
2) The IPCA shows the “official” inflation rate approaching 9% (12-month accumulation);
3) The monthly Caged employment survey shows a net loss of jobs, 4 months straight;
4) Retail Sales have been declining over the past four months;
5) Nearly every week, the Petrobras corruption/bribe scandal gets worse;
   ➔ This Datafolha poll was conducted before the arrest of the Odebrecht & Andrade-Gutierrez CEOs and top executives
6) 63% of the Datafolha sample said the fiscal adjustment affects mostly the poorest persons;
7) The monthly unemployment data has been worsening;
8) Average wages have been declining; and
9) The Central Bank’s IBC-Br indicates that the economy is in a worsening recession.

Scenarios for 2018

Datafolha ran TWO simulations for the October 2018 presidential election:

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>Lula-Aécio</th>
<th>Lula-Alckmin</th>
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<tbody>
<tr>
<td>Lula (PT)</td>
<td>25%</td>
<td>26%</td>
</tr>
<tr>
<td>Aécio Neves (PSDB)</td>
<td>35%</td>
<td>- -</td>
</tr>
<tr>
<td>Geraldo Alckmin (PDB)</td>
<td>- -</td>
<td>20%</td>
</tr>
<tr>
<td>Marina Silva (PSB)</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>Eduardo Paes (PMDB)</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Luciana Genro (PSOL)</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Eduardo Jorge (PV)</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Blank/Null</td>
<td>11%</td>
<td>14%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>5%</td>
<td>7%</td>
</tr>
</tbody>
</table>

The first simulation shows that Sen. Aécio Neves (PSDB), who placed a very close second to Dilma Rousseff (PT) in October 2014, would best Lula by 10 points (35% vs. 25%) with Marina Silva in third with 18%.

In the second simulation with Gov. Geraldo Alckmin as the PSDB candidate, Lula (PT) would lead with 26% with Marina Silva in second rank (25%) and Alckmin in third place with 20%.

The conclusion is that Neves would be a much stronger candidate than Alckmin – but the Lula-Alckmin scenario had more “Undecided” (21%) than in the Lula-Aécio scenario (16%).
**Bad news for the PT??**

Probably, yes. In this June *Datafolha* poll, those with “sympathies” [preference] for the PSDB increased from 5% in February, to 7% in April and now 9%. The PT declined from 29% in March 2013 to 13% in June 2015. Ever since *Datafolha* began its data series on the party preferences of the Brazilian electorate, the PT has always led in the 137 polls (1989 to date). If this trend continues, the PSDB should surpass the PT in the second semester of 2015.

In a speech to religious leaders last week, Lula described the PT as a “party in deep trouble” and described (and criticized) the many mistakes and bad decisions Pres. Dilma has made (since 2011). He intimated that his own (possible) 2018 campaign “was threatened”. His speech was before the *Datafolha* poll data was released.

**A Cartoon by Chico**

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**Aécio Neves enters the bar and says - “You guys better start paying attention to me!”**

This data and event-sequence indicate that for the first time since the municipal elections in 1982, the PT quite possibly would elect less mayors and city council members in 2016 than it did in 2012. Since 1982→1988, in every municipal elections, the PT has always elected more mayors and city council members than in the previous election. The reduction of its “municipal base” will in turn have a negative impact on the party’s candidates in the 2018 general election → loose the presidency and elect fewer governors, senators and deputies (state and federal). This June 2015 *Datafolha* poll shows that if the election were held now in mid-2015, Senator Aécio Neves probably would be elected President and defeat Lula.

**1.2 – Petrolão – Lava Jato**

**S&P Downgraded Odebrecht** – It didn’t take very long – the Federal Police arrested the Odebrecht CEO on 19th June and on 23rd June S&P downgraded Brazil’s largest construction/engineering firm → “BBB” to “BBB-” with a negative outlook. – but still “investment grade”, just one notch above “junk bond” status. *Moody’s* reacted more quickly; on 20th June reduced both Odebrecht and Andrade Gutierrez to “negative outlook” – with a possible downgrade in the offing. According to Columbia University professor, Jennifer Rogers, these construction firms accused in the *Lava Jato* investigation might encounter legal “difficulties” in the US.
1.2.1 – Federal Police versus Odebrecht

As reported by Brazil Focus last week, CEO and family owner of Odebrecht, Brazil’s largest construction/engineering firm – Marcelo Odebrecht (age 46) was taken into custody by the Federal Police on Friday, 19th June and held under preventative arrest in by federal judge Sérgio Moro in Curitiba. The CEO of another large construction/engineering firm – Andrade Gutierrez – was also arrested in addition of several other executives of the two firms.

On Monday, 22nd June, guards at the Federal Police lockup in Curitiba intercepted a handwritten note by Marcelo Odebrecht to his lawyers instructing “destroy e-mail drilling rigs”. Odebrecht and Andrade Gutierrez were the remaining two firms allegedly involved in the massive bribery/corruption scheme vis-à-vis Petrobras whose CEOs, CFOs and executives had not been arrested and charged in the Petrolão Lava Jato investigation.

Odebrecht’s lawyers called this “an act of extremely bad faith by the Federal Police” – and gamely tried to explain “That the phrase ‘destroy e-mail’ meant ‘explain’ or ‘refute’ the allegations about the e-mail”. Detail: During the court-ordered “search-and-seize” operation at Odebrecht’s offices, the Federal Police encountered an e-mail from Marcelo Odebrecht that referred to “over-pricing” in an operations contract for a drilling rig. Apparently, his note was an attempt to destroy all other e-mails in the firm’s computers that could be used as evidence against him. His lawyers again gamely tried to explain this e-mail saying that the term “over-pricing” had “nothing to do with overbilling, overcharging or any irregularity”, but rather he was referring to a “cost-plus-fee” pricing arrangement.

Another “blow” to ALL the executives imprisoned and accused in the Operation Lava Jato investigation was the 25th June decision by STF judge Teori Zavascki (who is supervising this case) to ratify the plea bargaining information supplied by Ricardo Pessoa (the CEO of UTC, reputed to be the “coordinator” of this cartel) negotiated with the Federal Police and prosecutors. This was also a “blow” to the attempts by the Dilma Rousseff government to establish that all plea bargaining negotiations be the exclusive prerogative of the CGU.

1.2.2 – Federal District Court in lower Manhattan ᗐ Petrobras

On 25th June, Judge Jed S. Rakoff at the southern Manhattan federal district court decided that within two weeks he would announce his decision whether Brazil’s giant petrol state enterprise Petrobras should stand trial for a culture of bribery and corruption that has had a very negative impact on Brazil’s private sector and its political elite and reduced the firms market value by some US$90 billion. Detail: Judge Rakoff is well known for his tough stance on corporate wrong doing.

Petrobras investors, led by the UK universities’ Superannuation Scheme (that manages pension funds for British academics) and pension funds for state workers in Ohio, Idaho and Hawaii claim in court filings that they lost billions as a result of this giant corruption scheme and that Petrobras was “rotten to the core”. The plaintiffs had invested in Petrobras ADRs on the New York market.
In eight separate suits, merged into a US class action, are represented by Pomerantz Law – the law firm that helped investors sue BP after the Gulf of Mexico and those who lost their investments in the Enron scandal.

Brazilian prosecutors have requested the assistance of the US Dept. of Justice and the SEC to build their case as its tentacles have spread overseas. These same prosecutors affirm that they are “inspired by the FIFA case” – where US prosecutors brought bribery and corruption charges against several senior executives in this world soccer organization. See ➔ http://www.theguardian.com/world/2015/jun/25/petrobras-brazil-bribery-corruption-us-trial

1.2.3 – “For Whom the Bell Tolls” – an Habeas Corpus for Lula?

On 24th June, a “consultant” – Mauricio Ramos Thomas (age 50, from Campinas) – filed a “preventative” habeas corpus request with federal courts in Curitiba, PR, in an effort to avoid an eventual arrest warrant against former president Lula within the Operation Lava Jato. Thomaz said “I filed this preventive request because of the threat of an arrest warrant against Lula has been in the headlines of the Brazilian media in the last few days”. The press spokesperson for the Instituto Lula (in SP) affirmed that “there are no on going investigations in the Operation Lava Jato that involve Lula”. This Institute has two lines of thought: 1) That “consultant” Thomas filed this action as a person “sympathetic” (friend) to Lula, but with no prior communication with the Inst. or with Lula; and 2) That Thomaz is “provocation” by an “enemy” of Lula and filed this habeas corpus to “tarnish” Lula public image and eventually involve him with the Lava Jato case. The Inst. Lula called attention to the fact that Sen. Ronaldo Caiado (DEM-GO) had announced this habeas corpus before it was filed on 24th June.

However – Lula is indeed involved in these investigations. In a separate line of investigation, federal prosecutors (within Brazil’s “Freedom of Information Law”) asked the Foreign Office (Itamaraty) for a list of ALL of Lula’s overseas trips since he left office (on 1st January 2011). This data revealed that Lula had travelled overseas in an Odebrecht [private] corporate jet to help pressure (lobby) in favor of this firm in several international contract competitions. Also, that the Lula Institute and Lula’s own public relations firm had received several large “donations” from companies that have been (and are) investigated by Lava Jato prosecutors. ➔ Stay tuned!!


Want more?? The next day, Judge João Pedro Gebran Neto, on the 4th Region TRF, denied this “preventative” habeas corpus saying that it was without any concrete basis that press stories are not a concrete basis, would expose Lula without his prior consent. He called this a “judicial adventure”. In addition, Judge Gebran Neto ordered federal prosecutors to “adopt appropriate measures” because the “vulgar language in this brief offended the honor of certain persons”. See ➔ http://www.msn.com/pt-br/noticias/brazil/desembargador-diz-que-habeas-corpus-em-nome-de-lula-E-aventura-jurídica-e-nega-pedido/ar-AAe805V?li=AA9Hm9&ocid=UP97DHP
Apparently, the second hypothesis elaborated by the Inst. Lula seems to be correct. Who is Maurício Ramos Thomas?? See http://politica.estadao.com.br/blogs/fausto-macedo/apertei-a-mao-dele-uma-vez-diz-autor-de-habeas-para-lula/

1.3 – Lula versus Dilma and the PT

Last week, after the National PT Congress on 11-13 June but before the Datafolha poll was released on 20th June, former President Lula began some very strong criticism of Pres. Dilma and her policies and of the PT.

![A cartoon by Amarildo](http://example.com/cartoon.jpg)

**Sitting on the ventriloquist’s knee: Lula “You are a bad girl”**.

**Dilma – “But my voice is your voice”**

Lula affirmed that the PT has “aged”, “lost its utopia”, and is only interested in “public jobs” for its militants, and that the party “needs a cultural revolution”. Lula said that he and Dilma can be considered *volume morto* [the water in the very bottom of the Cantareira reservoir in SP]. When the ship begins to take on water, Lula is the first one into the lifeboat. He is trying to distance himself from Pres. Dilma (his own creation in 2010) and from his own political party.

Lula criticized Dilma for promising one thing in her reelection campaign and doing just the opposite in her second term. He said that her “inner circle” of advisors is a “disaster” [especially Aloysio Mercadante [who has presidential ambitions for 2018].

2 – FOREIGN RELATIONS & TRADE

2.1 – Pres. Dilma ➔ USA
Pres. Dilma is scheduled to fly to New York on Saturday evening, 27th June in order to meet with investors in New York City on Sunday evening in a special dinner session. On Monday, 29th June, she will host two encounters with potential investors (plus several one-on-one encounters) where she will detail “new opportunities” in the infrastructure sector. Late that same afternoon, she flies to Washington for a reserved dinner with the Obama family at the White House and will be hosted a Blair House (adjacent to the White House) that is reserved for foreign visitors. Dilma did not receive this “Blair House gesture” during her visit to Washington in 2012.

Dilma’s entourage will count some 90 persons, including at least ten cabinet ministers ➔ Mauro Vieira (Foreign Relations), Joaquim Levy (Finance), Nelson Barbosa (Planning), Aloízio Mercadante (Casa Civil), Jaques Wagner (Defense), Renato Janine Ribeiro (Education), Ricardo Berzoini (Communications), Aldo Rebelo (Science * Technology), Armando Monteiro (MDIC), Marco Aurélio Garcia (Foreign Affairs Advisor), Kátia Abreu (Agriculture), Izabella Teixeira (Environment), Antonio Rodrigues (Transportation), Eliseu Padilha (Civil Aviation), Edinho Araujo (Ports), plus Luciano Coutinho (BNDES), Carlos Nobre (CAPES) and Maurício Tolmasquim (EPE).

See ➔ http://www1.folha.uol.com.br/fsp/mundo/224018-comitiva-de-dilma-para-visita-a-obama-tera-mais-de-90-pessoas.shtml

On 30th June, she will participate in the US-Brazil CEO Summit and a formal meeting with Pres. Obama in the Oval Office. One of the expected results of this Summit is to be a “cooperation accord” signed between Boeing and Embraer. Reportedly, Venezuela and Cuba will be on the agenda of her meeting with Pres. Obama.


Vice-President Joe Biden will host a special, high level luncheon at the State Department on Monday. On 30th June, she will fly to San Francisco where on 1st July she will meet with executives of technology firms (Google, Microsoft and Facebook). Dilma will also visit Stanford University and a NASA center. She will also lunch with Condoleezza Rice to thank her for her important role in the approximation of Pres. George Bush with the new Lula government (2002-2003).


She is trying to promote investments in science, technology and innovation in her second term. According to two White House staff advisors to Pres. Obama, in an interview with FSP correspondent in Washington, Raul Juste Lores, the priorities will be – trade & investments, defense & security, education, the environment, science and technology. Also, a two-way “exchange” of social security benefits between the US and Brazil will be discussed, as well as the inclusion of Brazil in the US Global Entry program – and a joint position regarding the UN World Climate Change Conference (COP-21) in Paris in December 2015.


See also ➔
http://www.brookings.edu/blogs/order-from-chaos/posts/2015/06/26-us-brazil-relations-rousseff-trinkunas
http://www.brookings.edu/blogs/order-from-chaos/posts/2015/06/26-obama-rousseff-human-rights-piccone
However – Pres. Dilma Rousseff will meet with potential investors in NYC under “difficult” circumstances – 5 days after a New York court (on 25th June) heard arguments as to whether Petrobras should stand trial for a culture of bribery and corruption. Judge Rakoff at the federal district court in lower Manhattan is well known for his tough stance on corporate wrongdoing. ➔ Item 1.2.2

See ➔ http://www.theguardian.com/world/2015/jun/25/petrobras-brazil-bribery-corruption-us-trial

2.2 – Italy postponed extradition of Pizzolato again

Once again, on 24th June, the Italian Council of State decided to postpone the extradition of convicted mensalão participant – Henrique Pizzolato – until 22nd September. The Council requested more information regarding the “quality” of the prison where Pizzolato would be held (Papuda Prison in Brasilia) – whether this prison has conditions to “preserve the physical integrity” of Pizzolato. **Detail:** ALL of Pizzolato’s mensalão “colleagues” served their sentences in the Papuda prison in Brasilia and the Brazilian press criticized their “special treatment” in an area separated from the other “common” prisoners. He was sentenced to 12 years in jail, **but** for “good behavior” he could be released to house arrest after serving one-sixth of his term (two years) – discounted the time he has been held in Italian jails.

2.3 – Pope Francis names new Brazilian bishops

On 24th June, the Vatican announced that Pope Francis had two new Brazilian bishops ➔ 1) Rafael Biernaski to be the Bishop of the Blumenau, SC diocese, and 2) João Santos Cardoso to be the Bishop of Bom Jesus da Lapa, BA.

**Biernaski** was born in Curitiba, PR in November 1955 and studied at the PUC-PR and was ordained in December 1981. In 2010, he was named assistant bishop in Curitiba

**Cardoso** was born in Dário Meira, BA in December 1961 and studied philosophy and theology in Teófilo Otoni, MG and in Ilhéus, BA, and was ordained in December 1986. In December 2011, he was named bishop of São Raimundo Nonato, PI.

3 - REFORMS

3.1 – *Datafolha* ➔ Political Reform
A bit late (after the Chamber deliberated three points), the *Datafolha* poll (cited above in Item 1.1) surveyed voter opinion regarding: 1) Eliminate reelection; 2) Unify all mandates to five years; and 3) The end of the obligatory vote.

**Reelection** – Since 2005, voter opinion has reversed. Ten years ago, 65% were in favor of maintaining reelection for President, Governors and Mayors. In 2007 (after the reelection of Lula), 58% continued favorable. **However** – in mid-2015 (after the reelection of Dilma) only 30% favored the continuation of this mechanism. The conclusion might be that this reversal might have occurred because of the “disastrous” second term of Dilma Rousseff (67% in favor of ending immediate reelection). In May, the Chamber approved the end of reelection by an overwhelming vote (452-to-19).

**However**, when the Chamber approved the end of reelection, it did not adopt the US or Mexican model – “no reelection ever again”. In the US, the president can run for a second (immediate) term; if reelected “that’s it” – he/she can never run again. Before 1946, the US did not have an “term limit” for its president. **BUT** – after FDR was elected president four times (1932, 1936, 1940 and 1944), a Republican “landslide” in 1946 elected majorities to over 80% of state legislatures. So, it was relatively easy to approve a constitutional amendment limiting the presidential mandate at two consecutive terms. In Brazil, there is a saying “that sometimes the witchcraft come back to haunt the witch” and this was the Republicans’ “destiny” – Eisenhower was elected in 1952 and 1956 and the 1960 polls showed that he could have been easily reelected to a third term in 1960. Only one US president lost a reelection bid and four years later was again reelected – Stephen Grover Cleveland – was elected in 1884, defeated for reelection in 1888 and elected again in 1892.

Recently, two US presidents could have attempted to replicate Cleveland’s “feat” – Jimmy Carter, defeated for reelection in 1980, could have tried again in 1984 – and George Bush (senior) was defeated for reelection in 1992 and could tried a comeback in 1996.

What the Chamber of Deputies did was to simply repeal the 16th Constitutional Amendment approved in 1997 (that allowed FHC to be reelected in 1998) and (if approved by the Senate) would return Brazil to the pre-1997 situation where Presidents, Governors and Mayors could not be reelected to a second consecutive mandate **BUT** after four years out of office could be elected again. This only happened twice for Brazilian presidents – 1) Francisco de Paula Rodrigues Alves was elected President in 1902 and elected again in 1918 but contracted Spanish flu and was not able to take office; and 2) Getúlio Vargas was President between 1930 and 1945 (ousted by the military in October 1945) but was again elected by a direct popular vote in 1950 but did not complete his second term (he committed suicide in August 1954).

In the case of Mexico, the president has a six-year term and then can never run again.

**Unify all mandates at FIVE years**

The recent *Datafolha* sample was divided on this question – 53% in favor of the five-year unification and 42% negative. Because municipal and general elections in Brazil are currently (since 1988) two years out of phase, the complete unification would take several years. The other “complication” is what to do with Senators who currently have eight-year mandates (double the 4-year mandate of deputies) – 1) Senators’ mandates would be reduced to five years; or 2) Senators’ mandates would be increased to ten years?? In the First Republic, deputies had 3-year mandates, and
senators had 9-year mandates; with three senators per state, one senator was elected every three years. In the 1934 Constitution, each state had TWO senators, and two senators per state were elected in December 1945 to the 1946 Constituent Assembly that decided that each state was to have a third senator elected in 1947. Thus, Brazil has “unbalanced” elections for Senator, electing one senator and four years later two senators – for example, two senators elected in 2010, one in 2014 and two in 2018.

Supposedly, the idea of a five-year mandate was conceived to “compensate” for the end of the reelection mechanism – “Give the President a five-year mandate”.

**The End of the Obligatory Vote**

Many nations in Latin America still have the “Obligatory Vote”. This was instituted in Brazil’s 1946 Constitution with rationale that the Brazilian voter was not “civic minded” enough to vote without it being obligatory by law (with fines and penalties for those who did not vote). However, in 1946, because of the literacy requirement, less than 20% of the adult population was registered to vote (more or less an “elite”). The literacy requirement for voter registration was removed in the 1988 Constitution (and the voting age reduced to 16) and in 2015 over 80% of Brazil’s population are registered to vote. The obligatory vote was maintained and since 1988 around 80% of registered voters cast their votes on election day.

The question is – “Should voting be considered a “duty” or a “right”? Voting as a “duty” means voting should be obligatory (like registration for the draft). Voting as a “right” means that you exercise your “right” if and when you so desire – like a driver’s license, you have the “right” to get a driver’s license, but many people don’t exercise this “right”.

Voter opinion regarding the obligatory vote has changed dramatically since 2010, when opinions were tied at 48% each. In this mid-2015 poll, 66% favored the end of the obligatory vote versus 32% in favor of maintaining this mechanism.

*Datafolha* Director, Mauro Paulino, affirmed that the preferences for the end of reelection and the obligatory vote reflect a general aversion to politics and politicians in general that was strongly evident in the June 2013 protest demonstrations and that this sentiment continues in 2015.

In the case of the obligatory vote, different from the question of reelection, the Chamber decision was contrary to voter opinion and the obligatory vote was maintained by a 311-to-134 vote. This decision must still be confirmed by a second vote in the Chamber and two rounds of voting in the Senate.

*Datafolha* then asked the sample of voters “If voting became voluntary (optional, non-obligatory) would you continue to vote?” -- 58% responded that they **would not vote** if voting became optional more or less the same division as in the May 2014 poll (57% vs. 42%). However, in May 2010, voter opinion was different – 55% favored volunteer voting and 44% preferred maintaining the obligatory vote. Broken down by income, among voters in the highest income bracket (over two minimum wages) – 62% said that they would continue to vote even if it was optional. Whereas, among the voters in the lowest income bracket (two minimum wages) – 35% said they would continue to vote.
This breakdown was adroitly used by then Gov. Sérgio Cabral (PMDB-RJ) in the 2008 election for Mayor of Rio. The second round runoff election pitted the PMDB candidate Eduardo Paes against Fernando Gabeira (PV) and the polls showed that Gabeira would win this election. Gov. Cabral switched a state holiday to the Monday after the Sunday 2nd round election that “provoked” a long three-day holiday weekend. As a result, Paes eked out a slim victory over Gabeira – 50.83% vs. 49.17%. Why?? A comparison of the first and second round results by election zone showed clearly that in the zones where Gabeira had won in the first round (that had a majority of middle and upper middle class voters) fewer votes were cast on the 2nd round and the PV candidate lost. Conclusion, these middle and upped middle class voters took advantage of the three-day holiday and traveled outside of Rio and did not vote.

Apparently, a large majority of deputies (from all parties) felt that with voluntary voting in the 2018 elections they would have more difficulty in motivating and mobilizing “their” supporters to get out and vote (for them).

3.2 – The Senate’s “turn”

Brazil’s upper house has been waiting patiently for the Chamber to vote out its proposals for the “political reform” so that it can begin deliberating these proposals and other proposals that Senators make. To this end, Senate President Renan Calheiros (PMDB-AL) has constituted a special committee to examine the political reform as of Tuesday, 30th June. The mission of this committee is to evaluate the proposals made by the Chamber plus others made by senators in time for a full Senate deliberation before 17th July ➔ a very short time frame because for any reform to take effect for the 2016 elections, the new rule(s) would have to be published in the federal daily record (Diário Oficial) before 2nd October – one year before the first round election in 2016.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 - Unemployment

On 25th June, IBGE announced its PME (Monthly Employment Survey) ➔ 6.7%. The unemployment rate increased for the fifth month straight since 4.3% was posted in December 2014. Valor Data surveyed 17 consultancies and the mean prediction was 6.6%. A Reuters poll of 27 economists also produced 6.6%.

Wages also declined (-1.9% MoM) – from R$ 2,158.74 in April 2015 to R$ 2,117.10 in May 2015 and -5.0% YoY (versus R$2.229.98 in May 2014). This should have a negative impact on retail sales in May and June.
5.2 – Federal tax revenues decline

Another key indicator that Brazil is sliding into a deep recession in 2015 was announced on 25th June by the SRF federal tax collections in May were R$ 91.5 billion (-4.0% YoY). Reuters surveyed 12 economists whose median prediction was R$ 94 billion. In April, tax collections totaled R$ 109 billion. If this trend continues in 2015, the +1.1% (of GDP) primary surplus will not be achieved. The 12-month accumulation of the primary result (through April 2015) is a -R$ 42.615 deficit (0.76% of GDP) and the largest 12-month “gap” since 2001. In Jan.-May 2015, tax revenues were R$ 510.1 billion (-3.0% YoY).

5.3 - CMN

The National Monetary Council (CMN) met on 25th June in Brasília and maintained the inflation target for 2016 at 4.5% with an upper limit at 6.5%. BUT for 2017 the CMN set the upper limit at 6.0%. This will be the lowest upper limit fixed by the CMN since 2001 when this limit was set at 5.25%.

5.4 – Fiscal Adjustment

This week the results of the approval of the last fiscal adjustment measures by the Chamber of Deputies was “zero” – losses versus gains. First, the Chamber approved the application of the annual adjustment of the minimum wage to ALL levels of social security (INSS) benefits. Previously, this larger adjustment was applied only to the lowest benefit (one minimum wage) and proportionately scaled down for higher levels of benefits. This decision should add some R$ 10 billion to the social security deficit in 2015. Second, the Chamber approved the cancelation of tax incentives to certain sectors of the economy imposed by Pres. Dilma in 2011 that had no effect, because there was no “counterpart” attached to these incentives (produce more, hire more employees). However, because of heavy lobbying by some sectors, certain deputies presented amendments to maintain these incentives. The result was an expected increase in revenues of R$ 10 billion.

The impact of these decisions on the fiscal adjustment has raised doubts and concerns in Brazil’s private sector and potential foreign investors regarding the viability of Finance Minister Joaquim Levy’s fiscal adjustment plan.

Don’t despair ➔ the Senate to the rescue. There are strong indications that the “cooler heads” in the Upper House will correct these “populist” decisions voted our by the Lower House and breathe new life (fiscal surplus) into the fiscal adjustment proposed by Joaquim Levy.