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## Political Atmosphere for the Week

An agitated week in Brasília is expected in light of the following factors:

- Depositions regarding the “bloodsucking” Mafia
- Repercussions generated by Daniel Dantas’ statements to Veja magazine
- Repercussions of the PMDB party decision not to go ahead with its own candidacy
- Manifestation of rural producers in Brasília
- Voting on Provisional Measures (MPs) in the Senate, especially 280/06 (Income Tax and Refis) and 281/06 (stock exchange foreign investors)
- Interview of the new Central Bank directors
- PFL decision regarding an alliance with the PSDB

## Issues for the week

**Rural Producers.** Rural producers from nine different States will hold a protest on Tuesday in Brasília against the Government’s agricultural policy. On the same day, President Lula will meet with Governors, members of Parliament and agribusiness entrepreneurs to discuss industry problems and debate the agricultural package announced on Friday.

**Central Bank.** The interviews of Mário Mesquita and Paulo Vieira da Cunha, respectively nominated for the directorships of Central Bank Special Studies and International Affairs, by the Senate Economic Affairs Committee has been scheduled for May 16, as of 10:00 a.m.

**House.** As of this Monday, five provisional measures will be blocking the House agenda: MP 279/06, - extraordinary credit for the Ministry of Cities; MP 285/06 – renegotiation of debts up to R\$ 50 thousand for mini, small and medium farming concerns and cooperatives originating from loans secured from the Northeast Constitutional Financing Fund (FNE); MP 286/06 - extraordinary credit for the Ministries of Justice, Social Security and Sports; MP 287/06 - extraordinary credit for the Ministry of Transport; and MP 288/06 – increase of the minimum wage to R\$ 350.

**Senate.** Five provisional measures are blocking the Senate agenda: MP 280/06 – which adjusts the individuals income tax table by 8%; MP: 281/06 – that exempts foreign investors from income tax on investments in public securities; MP 282/06 – concession of a new extraordinary credit of R\$ 57.55 million for the Ministry of Transport to undertake emergency repairs to the country’s highway network via the “pot hole fill-in operation”; MP 283/06 – reorganization of civil service careers; MP 284/06 – permission for domestic employees to discount employer contribution to Social Security from their annual income tax declaration;

**PFL.** The PFL meets on Thursday (May 18), in Brasília, to decide who will be the Vice-President on Geraldo Alckmin’s (PSDB) ticket for the Presidential succession. Two Senators are in the running: José Jorge (PE) and José Agripino Maia (RN). The PSDB awaits the PFL’s definition in order to boost Alckmin’s candidature.

**“Bloodsuckers”.** The House should hear a former Ministry of Health aide regarding the “bloodsucking” mafia and the involvement of parliamentary representatives in fraudulent ambulance procurement.

## Situational Analysis

### ⇒ Wave of bad news could affect Lula

Over the last two weeks Lula has faced serious problems that could influence the voters.

Besides the incident with Bolivia, new accusations by former PT Secretary Silvio Pereira regarding the monthly payoff, accusations of extortion of Banco Opportunity by the PT, and more recently, the protests of farmers against the agrarian policy of the government.

An Ibope poll taken only in Brasília last week shows that 59% of the electorate condemned Brazil's diplomatic response. For 75% of those surveyed, Brazil should demand compensation.

This weekend *Veja* magazine explored the Opportunity matter and *IstoÉ* magazine reports that former Social Security Minister Amir Lando met with Prosecutor General of the Republic Antonio Fernando Souza to denounce deliberate favoring of the BMG bank, articulated by the Civil House commanded at the time by José Dirceu.

These are topics that could fuel the headlines in a very bad way for Lula.

To alleviate Lula's situation, the "bloodsucker" scandal piles more dirt on Congress and reduces the focus of the press on the episodes that involve the President directly. Lula's salvation up until now has been that voters perceive Congress as being a lot worse than the President.

However, if Daniel Dantas confirms the report published by *Veja* magazine in a deposition to Congress or the Public Prosecution Ministry, the political climate could worsen significantly.

If Daniel Dantas is playing his cards like Silvio Pereira - threatening and then retreating – the episode could lose strength.

The suspicions of former Social Security Minister Amir Lando concerning consigned credit are an additional factor in the general turbulence.

The critical point is the fact that Lula continues to be pressured by the wave of bad news.

### ⇒ Organized crime declares urban war in São Paulo

The worst news for the government this weekend didn't come from the magazines, which for more than a year have been occupied with systematic accusations of corruption involving people from the PT political scheme. It came from the biggest attack

ever by the First Capital Command (PCC) criminal organization against São Paulo public safety officers.

According to a check done at 10:00 p.m. this Sunday night, 115 attacks and rebellions in prisons left: 55 dead (37 civilian and military police, members of metropolitan guards, prison guards, and 17 criminals), 220 hostages, 20 torched buses, and 82 criminals arrested.

The international press gave a lot of coverage to the story, which was treated as a virtual urban war provoked by terrorists, a scenario very similar to the situation that generated the armed conflict in Iraq. Saturday's *Jornal Nacional* and *Fantástico* Rede Globo television programs also covered the attacks extensively. On Sunday the violence had spilled over into the states of Paraná and Mato Grosso do Sul, with rebellions in several municipalities.

From Viena, where he was attending an international meeting, President Lula put Federal Police at the disposal of Governor Cláudio Lembo, who refused the offer and ordered civil and military police to occupy the streets of São Paulo. Utilization of the Armed Forces elite troops specialized in facing criminals also began to be considered by the authorities. This Monday morning the war on crime was expected to be the first item on the President's agenda at the first political coordination meeting of the week.

Although Lula is leading in the polls four months before the election, the wave of attacks could significantly hurt the popularity of an administration that in actuality did little to face one of the issues that usually comes up in first place in surveys about the country's most serious urban problems – public safety.

### ⇒ PMDB convention decision

Nothing is longlasting in the PMDB. Not even this weekend's decision. Even so, it's hard to believe that the party will have a Presidential candidate.

According to an Arko Advice survey on coalitions done at the beginning of May, the PMDB intends to make alliances with the PT in 9 states and with the PSDB in 11. Due to verticalization, these alliances would not be possible if the party decided to field its own candidate.

Outside the coalitions, the party's alternatives are controversial.

Anthony Garotinho, besides not respecting the limits of the party bosses, "committed suicide" politically with his ridiculous hunger strike. And Itamar Franco doesn't bring the party together or cause any enthusiasm.

### ⇒ There are still doubts as far as the Presidential election scenario

The Presidential race starts getting clearer this week, even though there could be changes during the period of party conventions (June 10 through 30).

In the PMDB the situation appears to be final. The party will not have its own Presidential candidate, neither make an alliance at the federal level. However, the PT still won't give up. Berzoini and Tarso Genro are talking with Itamar, trying to convince him to support a coalition with the PT.

After the PFL meeting this Thursday in which the party will choose the VP on the Geraldo Alckmin ticket, the PSDB-PFL coalition will be formalized.

In the PDT, Cristóvam Buarque will be made the official candidate of the party today. Roberto Freire is the PPS pre-candidate. An alliance between the PDT and the PPS cannot be discarded.

The PSOL will run with Senator Heloisa Helena. Enéas Carneiro will be the Prona candidate.

Although he has not made it official yet, there is no doubt that Lula is the candidate of the PT. The alliance should be made with PC do B and PSB.

In the PP, PTB, and PL the logic of political survival prevails. The objective is to reach the barrier clause (5% of national votes and 2% in one third of the states). So these parties aren't expected to forge a coalition at the federal level.

However, some doubts remain. For example:

- Will the PT be able to attract other parties to its coalition?
- Will the PPS and PDT take their candidacies all the way, remain free to make alliances in the states, or join with another party in a coalition?
- Is the PMDB decision final?

Considering the current picture, the free election advertising time on radio and TV for the Presidential election will be the following (considering a 25-minute program):

Party / Coalition	Candidate	Time
PSDB-PFL	Geraldo Alckmin (PSDB)	10min51sec
PT-PCdoB-PSB	Lula (PT)	10min05sec
PDT	Cristovam Buarque	2min09sec
PPS	Roberto Freire	1min48sec
PSOL	Heloisa Helena	1min17sec
PRONA	Enéas Carneiro	56sec

### ⇒ PDT chooses Cristovam

This Monday the PDT National Executive Committee meets in Rio to make Senator Cristovam Buarque's (DF) Presidential candidacy official.

On the 23rd it will be the turn of the party directory to reaffirm the decision, result of a careful process of consultation at the regional grass roots level conducted by the party president, Carlos Lupi.

The choice of Cristovam is a victory of those that, along with Lupi, advocated the party's own candidacy as the best medicine against verticalization. It will remain to be seen if it will also be sufficient to overcome the barrier clause (requirement of 5% of the national votes and 2% in one third of the states).

Cristovam will present himself in the campaign as the heir of the left, in opposition to the conservatism of Lula and Alckmin. But the novelties of his program of government will address the social area – if elected, the Senator would maintain economic policy.

Now Cristovam's challenge is to attract the PPS for an understanding that contemplates the PV and PSB, this in the form of unofficial coalitions in some states. In spite of interest on the part of the PSDB, Representative Roberto Freire has already indicated that he could line up with the PDT.

With almost four minutes of election advertising, in the event of a coalition with the PDT and PPS, Cristovam could fight for – with some advantage – the position of election surprise with Heloisa Helena.

## Political Agenda for the Week

### MONDAY (May 15)

- ✓ This week, the Superior Electoral Court (TSE) should decide whether the rules established for the **mini electoral reform** will be put into effect for the 2006 elections.
- ✓ The **PDT** party meets in Rio de Janeiro to decide on Senator Cristóvam Buarque's candidature for the Presidency of the Republic.
- ✓ Institutional Relations Minister Tarso Genro, PT President Ricardo Berzoini and former President Itamar Franco meet in Brasília to discuss the **presidential succession**.
- ✓ The Government will announce **2006 Union Budget contingencies**.
- ✓ The new President of the Applied Economics Survey Institute (**IPEA**), Luiz Henrique Proença Soares, takes office at 2:30 p.m. in Brasília.
- ✓ **IBGE** publishes the Monthly Industrial Employment and Wages Survey (March 2006).
- ✓ Broadcast of the **PP** party's electoral program in all States totaling 20 minutes.
- ✓ MP 288/06, which adjusts the **minimum wage**, begins to block the House agenda.
- ✓ Petrobras gas and energy Director, **Ildo Sauer**, will participate in a debate, in Rio de Janeiro, addressing the effects of Bolivia's oil nationalization on Brazil.

### TUESDAY (May 16)

- ✓ Rural producers hold a demonstration in Brasília against the Government's agricultural policy.
- ✓ President **Lula** meets with Governors, members of parliament and agribusiness representatives to discuss measures for the industry.
- ✓ The House Agriculture Committee will hold a public hearing to debate the domestic agribusiness and cattle-raising situation with Finance Minister Guido Mantega, Agriculture Minister Roberto Rodrigues and Development Minister Luiz Fernando Furlan.
- ✓ The **House of Representatives** will initiate voting on five provisional measures currently blocking the agenda.
- ✓ The **Senate** will attempt to vote on provisional measures blocking the agenda.
- ✓ The Senate Economic Affairs Committee will interview **Mário Mesquita and Paulo Vieira da Cunha**, nominees for Central Bank directorships.
- ✓ The **Bingo CPI** will hear the deposition of journalist Soraya Uggege (*O Globo*), responsible for the Silvio Pereira interview.
- ✓ The Senate Foreign Relations Committee will hold a public hearing with Mines and Energy Minister Silas Rondeau and Petrobrás President Sérgio Gabrielli to debate the **Petrobras Bolivia expropriation** decreed by the Evo Morales administration.
- ✓ The Senate Social Affairs and Infrastructure Committees will hold a public hearing with BNDES President Demian Fiocca, and others, to discuss the **Varig** situation.
- ✓ The House Science and Technology Committee will hold a seminar on "**Digital TV: Future and Citizenship – obstacles and challenges for a new form of communication**".
- ✓ The Mixed Budget Committee will hold a public hearing to discuss the **minimum wage hike** policy together with Ministers of Planning, Budget and Budget Management Paulo Bernardo, Labor Luiz Marinho and the President of the Sole Labor Union Central (CUT), João Felício.
- ✓ The PT candidate for the government of São Paulo, Senator **Aloizio Mercadante**, will deliver a speech to the 50 most prominent foreign investors in Brazil, at an event in New York (USA) at Itaú Securities. Central Bank President Henrique Meirelles will also participate in the event.
- ✓ Broadcasting of free **PL** party spots on radio and TV networks, totaling 5 minutes.
- ✓ The **US** Labor Department will publish the Producer Price Index (PPI) for April.

### WEDNESDAY (May 17)

- ✓ The Committee in charge of studying changes to the undertakings of the Mixed Budget Committee will submit a proposition to Congressional Chairman Senator Renan Calheiros (PMDB-AL).
- ✓ The Committees of Economic Development, Mines and Energy, Financial Inspection and Control, Foreign Relations and National Defense will hold a public hearing to discuss "**gas nationalization and its impacts on Brazil**" with Ministers Dilma Rousseff (Civil Cabinet), Celso Amorim (Foreign Relations), Silas Rondeau (Mines and Energy), Petrobras President Sérgio Gabrielli and others.

**WEDNESDAY (May 17) – Continuation**

- ✓ The House Science Technology Committee will hold a public hearing to discuss Bill No. 3.839/2000, regarding the use of Telecommunication Services Universalization Fund (**Fust**) by mobile service companies.
- ✓ Labor unions (Força Sindical, CGT), Brazilian Bae Association –OAB- (São Paulo section), and São Paulo Trade Association, amongst others, will hold a demonstration in front of the Bolivian Consulate, against actions taken by Bolivian President Evo Morales in relation to Brazil.
- ✓ **IBGE** publishes the results of the Monthly Trade Survey (March 2006).
- ✓ The **US** Labor Department publishes the Consumer Price Index (CPI) for April.

**THURSDAY (May 18)**

- ✓ **PFL** meeting to choose the candidate for vice president on the PSDB ticket.
- ✓ **PC do B** national program on radio and TV network totaling 10 minutes.
- ✓ Broadcasting of free **PL** party spots on radio and TV networks, totaling 5 minutes.
- ✓ FGV will publish the Transformation Industry Situation Survey – Special Issues for April.

**FRIDAY (May 19)**

- ✓ President **Lula** will visit Rio Grande do Norte. He will inspect undertakings in Natal and partake in a ceremony in Guamaré at the Petrobras Liquid Processing and Treatment Plant.
- ✓ Political scientist **Murillo de Aragão** will give a lecture on the political situation in a seminar for pension funds in Sauípe.
- ✓ The **Central Bank** will publish its foreign accounts report for April.
- ✓ FGV publishes the IGP-10 for May.

**SATURDAY (May 20)**

- ✓ Broadcasting of free **PL** party spots on radio and TV networks, totaling 5 minutes.

**Assessment of the Government**

**Managerial Performance.** Presidential aide Marco Aurélio Garcia criticized Foreign Relations Minister Celso Amorim for stating that Bolivian President Evo Morales is influenced by the Venezuelan government. Brazil's actions in the Bolivian issue are extremely poor. ☹

**Economic Performance.** The 12-month IPCA closed at 4.63%. This is the lowest result since July 1999. ☺

**Political Performance.** Following the shock of Silvio Pereira's interview given to the *O Globo* newspaper, the Government wound up the week in better stead than it started. The former PT party General Secretary did not reveal any new facts in his deposition at the Bingo CPI. ☹

**Fiscal Performance.** Statements issued by National Treasury Secretary Carlos Kawall regarding budget cutbacks did not please the market. He stated that cutbacks might be less than necessary to guarantee a surplus of 4.25% of GDP. Government sources guarantee that the target will be met. ☹

**Social Performance.** Tensions with soybean producers may be diminished with the announcement of an agricultural credit incentive package. ☹

**Reformist Performance.** Only one MP (Provisional Measure) was voted in the House. Two were appreciated in the Senate. The agendas of both houses continue blocked. ☹