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## Political Atmosphere for the Week

The political week will probably be one of the most agitated due to the following events:

- Silvio Pereira's allegations regarding the monthly payoff scandal
- The OAB's (Brazilian Bar Association) decision regarding Lula's impeachment
- PMDB party convention to decide on its own candidacy
- Attempt to vote provisional measures in the House and Senate
- Attempt to vote the mini tax reform in the House
- Interview of the new Central Bank directors by the Senate Economic Affairs Committee
- PT party's decision as to its candidate for the government of São Paulo

## Issues for the Week

**Lula's Impeachment.** This Monday, the Brazilian Bar Association (OAB) will discuss the initiation of impeachment proceedings against President Lula. Silvio Pereira's allegations should affect the OAB's decision, which might take a little more time to ponder the issue.

**Central Bank.** The interviews of Mário Mesquita and Paulo Vieira da Cunha have been scheduled for Tuesday, May 9 by the Senate Economic Affairs Committee as of 10:00 a.m. Mário Mesquita was nominated as Central Bank Director of Special Studies and Paulo Vieira as Central Bank International Affairs Director. Should the nominations be approved, they will follow on to be examined by a floor session, whose agenda is currently blocked by 5 provisional measures. Until these are analyzed the Central Bank directorship nominations cannot be voted. It is therefore as yet uncertain whether the new directors will participate in the Central Bank Monetary Policy Committee meeting scheduled for May 30 and 31.

**Silvio Pereira.** Silvio Pereira's new revelations regarding the monthly payoff scandal and Marcos Valério's schemes prompted Bingo CPI Chairman, Senator Efraim Moraes (PFL-PB) to summon him to render a deposition on Wednesday. The Federal Police also want to interview him and will summon him tomorrow.

**House.** Three provisional measures are blocking the House agenda: MP 284/06 – which allows individuals to discount employer contribution to Social Security for domestic employees; 285/06 – that permits the renegotiation of debts up to R\$ 50 thousand incurred by mini, small and medium rural agricultural concerns and cooperatives originating from Northeastern Constitutional Financing Funds (FNE); and 286/06 – providing for an extraordinary credit.

**Senate.** Five provisional measures are blocking the Senate agenda: MP 278/06 – that extends an extraordinary credit for the Ministry of National Integration; MP 279/06 – which extends an extraordinary credit for the Ministry of Cities; MP 280/06 – that adjusts the individuals income tax table by 8%; MP: 281/06 – that exempts foreign investors from income tax on investment in public securities; and MP 282/06 – which extends a new extraordinary credit of R\$ 57.55 million for the Ministry Transport to undertake emergency repairs to the country's highway network through the so called "pot-hole patch up" operation.

**PMDB.** On Saturday (May 13), the PMDB party will hold its convention to decide whether it will endorse its own candidate for the presidential succession. There are two possibles: former Governor of Rio de Janeiro Anthony Garotinho and former President Itamar Franco. The trend is that the party will decide against having its own candidate. On Thursday (May 11), the PMDB will broadcast its national program on radio and TV network.

**PT.** The PT candidate for the Government of São Paulo will be announced this week. Former Mayor Marta Suplicy (who last night was ahead with an easy margin in the capital city) is running against Government leader in the Senate, Aloízio Mercadante, who has prospects of changing the result with votes from the interior.

## Situational Analysis

### ⇒ The accusations of Silvio Pereira

This Sunday the *O Globo* newspaper published an interview with former PT Secretary General Silvio Pereira, which had the effect of refueling accusations of corruption against the government.

According to Pereira, the goal of the Marcos Valério scheme with the PT was to raise R\$ 1 billion. He also stated that the advertising executive from the State of Minas Gerais only told half of what he knows. There are other parties involved and the whole scheme may have resumed operation, since “there are more than one hundred Marcos Valérios behind Marcos Valério,” said Silvinho.

“Who commanded the PT were Lula, (José) Genoíno, (Aloízio) Mercadante and Zé Dirceu. I was not up to the level of this team,” he told the reporter.

The revelations are a strong blow to Lula, who spent the weekend commemorating the almost certain burial of the candidacy of Anthony Garotinho (PMDB) and the drop of Geraldo Alckmin in the Ibope poll taken in São Paulo.

The interview has a double effect: it shows how fragile Lula’s dependence is on the silence of his former allies and accomplices, and that the monthly payoff crisis stubbornly refuses to die.

In Congress the opposition is expected to get tough again with the government and threaten with new CPIs. Silvio Pereira will give a deposition in the Bingo CPI on Wednesday. Senator Eduardo Suplicy (PT-SP) went so far as to advocate that Lula go before Congress. Tasso Jereissati, president of the PSDB, wants to call a meeting of the opposition party presidents to discuss the political scenario in light of the new facts that have surfaced.

Lula will have a difficult election campaign full of expectations. The press could bring new revelations, with documented proof (Silvinho gave the *O Globo* reporter documents, but took them back), or through depositions and unexpected interviews.

For this reason, the reaction of the government should be strong. Silvinho and his accusations are expected to be the targets of judicial maneuvers. They will try to silence him through intimidation or emotional blackmail (for old times sake) and through the judicial venue. In this case, counting on the complacency of the Federal Supreme Court (STF).

In the PT his revelations have already been disqualified by important party leaders such as PT President Ricardo Berzoini and the government leader in the Senate, Aloizio Mercadante.

### ⇒ The unexpected always appears

Last week the unexpected event was going to be the blocking of highways by soybean producers. It occurred without causing too much trouble. However on Monday, the decision of Evo Morales to “nationalize” Petrobras investments started a whole new wave of bad news for the government. Due to the fact itself, as well as the unorganized reaction of the government.

The Garotinho hunger strike was another surprising fact. Smothered by the news media, the former governor decided to utilize a “factoid” in hopes of reversing the headlines. He was very unsuccessful. He demoralized himself in the political world, became the target of jokes, and was discarded by the PMDB as a candidate. He threw away all he invested in acquiring the support of the grass roots of the party.

As far as the government, the declarations of Silvio Pereira to *O Globo* represented another unexpected event that could bring serious repercussions for Lula.

Geraldo Alckmin should commemorate. In only seven days Garotinho self-destructed and Lula was harshly hit in two episodes: the Petrobras matter in Bolivia and the accusations by Silvinho Pereira.

In other words, it’s clear that the current situation in the election polls could be affected by events such as the ones observed over the last few days.

### ⇒ IBPS/JB releases a new election poll

A new IBPS/JB election poll (April 27 through May 4) was released this weekend.

The poll didn’t bring great changes in the race compared to the poll taken in March (23 through 30). The institute did three first round simulations. In the first, Lula has 34% of intended votes. Geraldo Alckmin (PSDB) appears with 24%, Anthony Garotinho (PMDB) with 9%, and Heloisa Helena (PSOL) with 8%. Roberto Freire (PPS) appears with 2%, and Enéas (Prona) with 1%. Undecided, blank, and void votes total 22%.

Compared to the previous poll, Lula and Alckmin showed the same percentage. Garotinho increased 1%, and Heloisa Helena, 2%.

In the second scenario Lula has 33%, Alckmin, 24%, and Heloisa Helena, 10%. Enéas and Freire appeared tied with 4%. Cristóvam Buarque (PDT) has 1%. Undecided, blank, and void votes total 23%.

In the March poll Lula had 34,4%, Alckmin, 26,1%, and Heloisa Helena, 8,4%.

In the third simulation Lula has 31%, Alckmin, 22%, and Heloisa Helena, 9%. Enéas has 7%. Roberto Freire and Itamar Franco (PMDB) appear tied with 3%. Cristóvam Buarque appears with 1%. Undecided, blank and void votes total 22%. In the March poll the institute did not include the name of Itamar Franco.

Second round simulations were also done. Lula would get 51% of valid votes and Alckmin, 49%. Since the poll's margin of error is plus or minus

2.2%, they are technically tied. In the previous poll the score was 52% to 48%.

Lula would defeat Itamar Franco by 64% to 36%, and Garotinho by 68% to 32%.

Garotinho leads the rejection ranking with 28%. Lula comes in second with 20%. Alckmin has 5%. In March these percentages were 29,9%, 23,9% and 4,4%, respectively.

## Political Agenda for the Week

### MONDAY (08/05)

- ✓ The OAB Federal Council will discuss a petition to initiate **impeachment proceedings against President Lula**.
- ✓ At 8:30 p.m., PSDB candidate for the Presidency of the Republic, **Geraldo Alckmin**, will participate in former President Fernando Henrique Cardoso's book signing of his *A Arte da Política* at the Armando Álvares Penteado Foundation in São Paulo.
- ✓ Central Bank President **Henrique Meirelles** will participate in the Bank for International Settlements (BIS) two monthly meeting in Basel, Switzerland.
- ✓ Broadcasting of **PDT** programs on radio and TV network, in all States except PA, totaling 20 minutes.
- ✓ **Itamar Franco**, PMDB pre-candidate for the presidency of the Republic, participates in an interview on the *Roda Viva* show as of 10:30 p.m.

### TUESDAY (09/05)

- ✓ President Lula participates in the 4<sup>th</sup> European Union-Latin America-Caribbean summit in Vienna.
- ✓ PT party President, Ricardo Berzoini, will have breakfast with former President and PMDB pre-candidate for the presidency of the Republic, Itamar Franco.
- ✓ The **House of Representatives** will attempt to vote three provisional measures blocking the agenda.
- ✓ The **Senate** will attempt to vote five provisional measures blocking the agenda.
- ✓ The Senate Economic Affairs Committee will interview **Mário Mesquita** and **Paulo Vieira da Cunha**, respectively nominated for the Central Bank directorships of Special Studies and International Affairs.
- ✓ The Senate Infrastructure, Social Affairs, Tourism and Regional Development Committees will hold a public hearing with Development Minister Luiz Fernando Furlan, Social Security Minister Nelson Machado, and BNDES President Demian Fiocca amongst others to discuss the **Varig** situation.
- ✓ Representative Josias Quintal (PSB-RJ) will submit his report on the Zulaiê Cobra (PSDB-SP) case to the **Ethics Committee**. She was accused by PT party national President, Rep. Ricardo Berzoini (SP), of having allegedly broken parliamentary decorum by accusing the PT of ordering the murder of Santo André Mayor, Celso Daniel.
- ✓ The IBGE will publish the Regional-Monthly Industrial Physical Production survey (March 2006).
- ✓ Broadcasting of free **PT** spots on radio and TV network totaling 5 minutes.
- ✓ Publication of the April IPCA and IGP-DI price indexes.
- ✓ Central Bank President **Henrique Meirelles** travels to Moscow where he will remain until Friday.

### WEDNESDAY (10/05)

- ✓ Meeting of the Social and Economic Development Committee (**CDES**), in Brasília.
- ✓ The House Development, Inspection and Control, Mines and Energy and Foreign Relations Committees will hold a public hearing with Civil Cabinet Minister Dilma Rousseff, Foreign Relations Minister Celso Amorim, Mines and Energy Minister Silas Rondeau, Petrobras President José Sérgio Gabrielli and Fiesp President Paulo Skaf to discuss the **consequences of the Bolivian government's decision** to nationalize gas and oil production.
- ✓ The House Development Committee will hold a public hearing at 10:20 a.m. with ministers Luis Fernando Furlan (Development), Guido Mantega (Finance), Luiz Marinho (Labor) and Roberto Rodrigues (Agriculture), amongst others, to discuss the "Export Sector, high interest rate and foreign exchange".
- ✓ Mines and Energy Minister **Silas Rondeau** will arrive in New York where he will meet with investors to talk about investment opportunities and the generation of hydroelectric power in Brazil.
- ✓ The **IBGE** will publish the National Consumer Price Index and the Amplified Consumer Price Index (April 2006).
- ✓ **FED** (U.S. Central Bank) will decide the U.S. interest rate.

**THURSDAY (11/05)**

- ✓ President Lula leaves for Vienna, Austria, at 7:00 a.m. to participate in 4<sup>th</sup> European Union-Latin America-Caribbean Summit.
- ✓ **PMDB** national program on radio and TV network totaling 20 minutes.
- ✓ Broadcasting of free **PT** spots on radio and TV network totaling 5 minutes.
- ✓ **Former PT party general secretary Silvio Pereira, will render his deposition to the Bingo CPI.**
- ✓ Mines and Energy Minister **Silas Rondeau** will participate in meetings in Washington with U.S. State Secretary for Mines and Energy, Samuel Bodman.

**FRIDAY (12/05)**

- ✓ **Petrobras** publishes its balance sheet for the first quarter.
- ✓ **IBGE** publishes the Civil Construction Costs and Rates Survey (April 2006).

**SATURDAY (13/05)**

- ✓ The **PMDB** party holds its national convention to decide on its own presidential candidacy.
- ✓ Broadcasting of free **PL** spots on radio and TV network totaling 5 minutes.

**Assessment of the Government**

**Managerial Performance.** Brazil was taken by surprise by the Bolivian government's decision to nationalize its gas production and dealt poorly with the issue. ☹

**Economic Performance.** April's trade balance closed at US\$ 3.0 billion. The accumulated amount for the year has increased to US\$ 12.4 billion, 2.16% higher than the accumulated surplus for the same period in 2005. Last week, the Brazil Risk factor dropped to its lowest historical level. ☺

**Political Performance.** According to an Ibope survey undertaken in São Paulo and published last week, the distance between President Lula and Geraldo Alckmin has dropped from 18% to 9% in the State. However, Silvio Pereira's allegations and the crisis with Bolivia may affect the President's performance from now on. ☹

**Fiscal Performance.** Last week, Planning Minister Paulo Bernardo confirmed that the Government might make a R\$ 20 billion 2006 Union Budget contingency targeted at achieving a fiscal surplus of 4.25% of GDP. ☹

**Social Performance.** According to a report issued by the International Labor Organization (ILO), the number of child workers from 10 to 17 years of age dropped 36% from 1992 to 2004. From 5 to 9 years of age the drop was 60%. ☹

**Reformist Performance.** The House and Senate continue to face difficulties to vote provisional measures blocking the agenda. ☹