

# A CLOSER LOOK AT THE LULA TEAM

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Following a very constructive transition with President Cardoso, newly inaugurated Brazilian President Luiz Inácio Lula da Silva has formed his cabinet, the great majority of whom come from the Workers Party. In fact, only a handful of the 33 ministerial spots will be held by people outside of the Party, leading some political analysts to predict that Lula will have difficulty building the majorities in Congress needed to approve key legislation such as pension and tax reforms. While that may be true, Lula's team may be looking back at the experience of his predecessor, who even with a wide multi-party political base of support, still had to wrestle over legislation with members of the Congress. With a Congress known more for amending proposals from the Executive than crafting legislation, Lula may be betting that the leverage in negotiations lies in controlling the Cabinet, which ultimately controls the purse strings in Brazil. This may explain why ministries belonging to Workers Party members control two-thirds of the budget.



Nevertheless, Lula has spent considerable effort toward building a coalition in Congress. Brazil's Congress is a strong institution with weak parties. Personalities and factions matter more than party labels or ideology. Now, with a Workers Party President, the party alliance that supported the previous Administration — Cardoso's PSDB along with the PFL and the PMDB — is nominally opposition. Though all three parties have indicated that they would support Lula's Administration on areas of mutual concern, Lula and his advisors would like to

avoid catering to any one major party at this point. He has been close to agreement with the PMDB, but negotiations have hit snags. The most likely scenario is that the Workers Party will take the presidency of the Lower House, where they have more seats than others but not a majority, and the PMDB will preside over the Senate.

Lula's marquee initiative is to be a social agenda geared toward eradicating hunger. However, and perhaps most importantly, the economic agenda is expected to focus early on social security, likely followed by tax reform. Though these reform items could likely get bogged down in Congress, they would significantly boost market outlook and relieve the pressures on the country's budget, allowing Lula to then focus on his social agenda. On the fiscal side, there remains the possibility that the primary fiscal surplus target of 3.75% for 2003 will be increased, if necessary. As for monetary policy, the new Central Bank president is focused on — but apparently not overly concerned about — the recent inflationary surge, arguing that it stems from recent exchange rate depreciation and will subside as confidence rises. Overall, the new government reflects more continuity with Cardoso's policies than most would have anticipated, particularly in the fiscal area. This course is serving President Lula well in maintaining an acceptable level of confidence in the marketplace.

Ultimately, Lula will have to manage priorities and articulate policies. For that, he has put together a strong team so he can govern and continue to reshape Brazil, hopefully for the better. The President and his closest advisors continue to chart a pragmatic and realistic course, showing willingness to change course and bring in other political forces into their cabinet but only if and when propitious.

## VICE PRESIDENT



Unlike his boss, José Alencar is a business leader who has built one of the largest textile companies in Brazil — Coteminas. By choosing Alencar to fill the #2 spot on the Workers

Party ticket, Lula broke his party tradition, expanded his coalition to victory, and gained a respected business leader as an advisor.

José Alencar has been an advocate of export-led growth both as a business leader and now as a political figure. The former Senator has recently indicated that Brazil needs to double last year's trade surplus to \$25 billion as a foundation for interest rate reduction, fundamental to spur economic growth.

*Below is a sketch of key members of Lula's team. It does not include every member of his cabinet or every high-level advisor. The purpose of this overview is to outline significant players in the Lula Administration and highlight both their policy objectives as well as some of the inherent tensions in every government.*

**CHIEF OF STAFF.** José Dirceu will be Lula's main political coordinator – a sort of Minister without Portfolio. A long time activist of the Brazilian Left, he is particularly close with Lula. In fact, Dirceu's behind the scenes operator-style was in large part responsible for the moderation of Worker's Party dogma and opening to political alliances from the Right. The strategy worked. Besides successfully running the Party and Lula's campaign — including traveling to the United States to calm investors and government officials fearing a Lula government — Dirceu was re-elected Congressman from the state of São Paulo with the second highest number of votes. Whenever the government is on the ropes, it will likely be Dirceu who will be sent out to defend the Administration, working the trenches in Brasilia or the business elites in São Paulo. Expect to see Dirceu's invisible hand at work behind the scenes in Lula's Administration and watch his relationships with the others in Lula's inner circle.



#### OTHER INFLUENTIAL ADVISORS



**Aloysio Mercadante** has moved from being a key Workers Party congressman to being a Senator from the powerful state of São Paulo.

Highly respected for his economic credentials and with solid relationships among the São Paulo business community, expect him to play an important leadership role in the Senate.



**José Genoíno** lost his bid to be Governor of the State of São Paulo and has been tasked with the job of President of the Workers Party. Many expected him to become Minister of Defense. He will be trying to keep the party united as Lula tries to govern the country.



**Luiz Gushiken** is a longtime advisor and close friend of Lula who will be tasked with developing the communications strategy of the Administration.

Highly talented and respected by Lula, Gushiken will be yet another invisible hand in the Lula Administration.



**Marco Aurélio Garcia** has been Lula's international advisor for many years. An academic, he has the President's ear though may not be seen in public often. Word is that he will have the position of foreign policy advisor, reporting directly to the President — putting him potentially at odds with the Foreign Ministry.

**FINANCE MINISTER.** If Dirceu is the invisible hand, Palocci was until now the invisible face. A year ago, Antonio Palocci was relatively unknown to most political observers in Brazil. Today, he sits in the hot seat of economic policy. A doctor-turned-politician, he was present at the founding of the Workers Party in 1980. Palocci gained favorable attention in the campaign and was picked to formulate Lula's government in the transition. In his role as Finance Minister, Palocci will have to walk the tightrope of fiscal and monetary discipline without seeming to backpedal on Lula's social agenda. He's a centrist in his Party, moderate and restrained in his economic policies and experienced in political negotiations. As mayor of a major town in the state of São Paulo, he irritated many in the Left as he pushed through the privatization of several public services. Watch his ability to withstand pressure from governors to renegotiate individual state debts.



**CENTRAL BANK.** Reinforcing themes of moderation and continuity, Henrique Meirelles' appointment was a clear signal to the financial markets. Meirelles was a senior BankBoston executive who recently entered politics by running for congress from the interior state of Goiás. In a landslide, Meirelles won the seat not for Lula's party but for Cardoso's PSDB. Since the Central Bank is not yet autonomous and insulated from politics, Meirelles' challenge will be to establish his independent monetary policy credentials. Inflation and re-establishing international financial support will be among his first concerns. Meirelles continues to reiterate that the Lula



Administration plans to maintain the current inflation targeting system, as well as giving the Central Bank operational autonomy to set monetary policy. Wisely, he has asked all Central Bank directors to stay on, giving him the needed experience in macroeconomic policy.

**EXTERNAL RELATIONS.** Celso Amorim, a career foreign service officer and most recently Brazilian Ambassador in London, returns to the helm of the prestigious Brazilian Foreign Ministry. Amorim was President Itamar Franco's Foreign Minister, twice Ambassador at the WTO, and President Cardoso's Ambassador to the United Nations. He defends an independent foreign policy for Brazil (vis-à-vis acquiescence to the United States). The success of his agenda will depend substantially on building relationships with Lula and the rest of his cabinet. In fact, immediately after his announcement, he emphasized that he will coordinate his work with the Ministers of Agriculture and Trade & Development, both of whom have close ties with Lula and growing international priorities, particularly in the trade area. Another challenge for the Minister may be the cadre of Workers Party advisors who have focused on foreign affairs. For instance, during the transition, Lula dispatched, Marco Aurelio Garcia, a personal friend and likely foreign policy advisor in his Administration, on a special mission to look into crisis-torn Venezuela. Also, Amorim's deputy, Samuel Pinheiro Guimarães, is an outspoken critic of free trade who was ousted from the Foreign Ministry by the previous administration.



**DEVELOPMENT, INDUSTRY, & TRADE.** Luis Fernando Furlan, like Lula's vice president, is an aggressive businessman who knows what exports can do for a company's bottom line. As president of Sadia, Brazil's largest pork and poultry processor, he has

**BNDES** – Brazil's Minister of Development has chosen Carlos Lessa, Rector of the Federal University of Rio de Janeiro, as President of the Brazilian Development Bank (BNDES). Considered one of Brazil's most important intellectuals, Lessa having previously worked in BNDES in the 1980s and later was an economist for the United Nations Economic Commission for Latin America and the Caribbean. The biggest investment bank in the country with an expected budget this year of R\$34 billion, BNDES is expected to undergo some changes, designed to give it more focus on development than investment.

expanded the company with value-added products for domestic and export markets. The company, which is listed on the NYSE, is one of Brazil's leading exporters. Furlan's task will be two-fold: to focus the Brazilian industry more on exports as means of growth to and expand overseas markets for Brazilian exports. Expect him — along with Agriculture Minister — to play a larger role in trade negotiations.



**AGRICULTURE.** Perennially on presidents' short list for Agriculture Minister, Roberto Rodrigues is a well-known figure in agricultural circles. He has led most major agricultural organizations and was until now head of the Brazilian Association of Agribusiness lobby group. His views are well known: Brazilian agriculture policy ought to make Brazilian products competitive, as well as open markets abroad. He will play an active role in international agriculture issues. In perhaps one area of conflict with the Environment Minister (see below), Rodrigues indicated his support for the legalization of biotech crops. Brazilian courts have temporarily banned GMOs, but farmers continue to produce them. Impending domestic shortages of corn and rice, the potential problems in exporting soybean with GMO strains to China and Europe, and pressure from the biotech industry will be high on the agenda of the Minister. Watch for a tug-of-war with the Environment Ministry over biotech.



**ENERGY & MINES.** Dilma Rousseff is an economist with extensive experience in the energy sector. She was until recently Energy Secretary for the southern State of Rio Grande do Sul, which avoided a black-out during government rationing of electricity in 2001. Known for her opposition to privatizations, Rousseff helped design the Lula energy program that, if enacted, would re-establish the government's active strategic planning and investment role in the sector. However, she has already indicated that no quick changes are expected. Showing some pragmatism and realization of the challenges ahead, among her first statements was, "we're going to stabilize the sector to attract investment." She has appointed Luiz Pinguelli Rosa, Brazil's most prominent nuclear physicist and another Lula energy advisor, to head of the state electric utility Eletrobrás. Another area of concern within her portfolio will



**PETROBRAS** – Workers Party Senator Eduardo Dutra will be Petrobras new president. A senator with a degree in geology and a critic of privatization will take the helm of Brazil's state-controlled oil giant. Critics say that Dutra lacks the business experience needed to head one of Brazil's most profitable and heavily traded companies. They said investors would view Dutra as a political appointee, which could undermine credibility in the company. Analysts have also said that Dutra's appointment could mean greater government intervention on Petrobras fuel pricing policy.

be the oil industry (see side box). The Minister will oversee state-controlled oil giant Petrobras, amid some market concern that Lula might use the company to bankroll social projects and freeze its fuel prices to rein in inflation. Whether in electrical energy or oil, her biggest challenge will be to bring stability and predictability to an investment-starved sector. Watch her ability to keep the issue at the forefront of Lula's Administration and a priority in Congress and, most importantly, her attempts to earn the trust of foreign investors.

**ENVIRONMENT.** Marina Silva is a Workers Party Senator and an environmental activist from the northern State of Acre. She began her political career early along with the slain Amazon ecologist Chico Mendes, when they launched a union movement, which cost the life of Chico Mendes and propelled Marina Silva's career in the mid-1980s. Though she learned to read and write only in her teens, she became the youngest senator in Brazilian history in 1994 at the age of 36. Known for her strong activism among the environmental community, Marina Silva will be faced with a Ministry low on enforcement funds and full of controversies, ranging from illegal mahogany exploitation in the Amazon to increasing pollution in the major cities. One of her biggest challenges will be to navigate the waters of biotechnology. Her position runs counter to many in the industry, most farmers, and the previous government. The Minister is trying to walk the tightrope of promising to continue research on biotechnology while at the same time calling for tight rules on its use. Watch her ability to counter industry's push for a pro-biotech position and her relationships with environmental agencies and NGOs.



**SOCIAL SECURITY.** Ricardo Berzoini is charged with leading the biggest and most needed fiscal reform in Brazil — overhaul of the social security system (aka "Previdência"). In the previous Administration, as president of the São Paulo Bank Employees Union, he led opposition to the Cardoso Administration's proposals. Recognizing now that the current system is unsustainable and contributes to an enormous social security deficit of 4.5% of GDP annually, he may have to swallow his words. Brazilian civil servants account for 25% of all pensioners but represent 60% of the social security deficit. In a nutshell, Lula's proposal calls for unifying the country's public and private sector pension programs. The Finance Minister and Lula's closest advisors recognize that Social Security reform is a "do or die" issue, but Berzoini will face both financial and political pressures. Civil servant unions are stronger than most political parties and do not want to relinquish their benefits under a unified system. Watch for tensions with Finance Ministry and whether they deliver social security reform this year.



**PLANNING & BUDGET.** Guido Mantega, a member of the Workers' Party and economist at the prestigious Getulio Vargas business school in Sao Paulo, was one of the coordinators behind Lula's economic program and has been a key spokesman on economic affairs for the Workers Party. The Minister will be tasked with managing a budget that, according to Lula himself, does not allow for much investment. Mantega has said he will focus on designing long-term programs for the Administration — that is, find money to support polices to create new jobs and boost spending in social programs.



**EDUCATION.** Senator Cristovam Buarque is a moderate member of the Worker's Party who was once Rector of the University of Brasilia and later Governor of the Federal District. Cristovam was the architect of one of Brazil's most innovative social programs – the Bolsa-Escola – that has now been replicated at the federal level. The program, which gives a stipend to poor mothers who keep their children in school, is credited with dramatically boosting school attendance. Cristovam's challenge will be to continue to improve the quality of primary education after the Cardoso Administration increased the number of students enrolled.



**DEFENSE.** José Viegas is a career diplomat with close ties with the Workers Party. Most recently Ambassador in Moscow, Viegas has been actively involved in military-related affairs throughout his life. Born in a military family and educated in military academies, he was involved in the negotiations of the Tlatelolco Treaty, which banned nuclear weapons in Latin America, and the reopening of the Brazilian Embassy in Cuba. Brazil's third civilian defense minister will have among his biggest challenges a military brass that is extremely weakened by lack of resources. The previous Administration talked much proposed a \$2.8 billion (including \$700 million for new jet fighters) modernization plan to improve Brazil's military, but the fiscal outlook hampered any progress. Lula consulted with the military before Viegas' nomination. Moreover, Lula has announced a deferral of the impending fighter procurement, portrayed as being in favor of funding for hunger programs. Expect a lot of talk before any new expenditures, as well as new domestic roles for the military.



**HEALTH.** Humberto Costa is Lula's pick to fill the seat previously filled by José Serra, the losing presidential candidate who gained notoriety in his fight against pharmaceutical companies. Like Palocci, Humberto Costa is another doctor-turned-politician but this time from the poor northeastern state of Pernambuco. The Health Ministry has a big budget but also big challenges. His mission will be to manage the budget in a way that shows real progress in a core area of Lula's agenda. The first issue will be whether to extend pharmaceutical prices controls. Expect a temporary extension of the previous price controls but a continuing fight with pharmaceuticals – both prices and patents.



**JUSTICE.** Márcio Thomaz Bastos will lead the government's attempts to improve public security in Brazil. A highly-regarded criminal trial lawyer, he has prosecuted a number of high profile cases, including convictions in the murder of Amazon ecologist Chico Mendes. The Minister has perhaps the most difficult yet urgent mission after the Finance Minister. Rampant crime in large cities, drug dealing and traffic, and a lackluster judicial process has led many Brazilians to lose faith in government, eroding the legitimacy of the State. Watch for ability to effectively integrate different levels of law enforcement.



**NATIONAL INTEGRATION.** As presidential candidate, Ciro Gomes said voting for Lula was a “jump into the dark” but later recanted and threw his support to Lula in the second round of voting. Now Ciro Gomes returns to government head a ministry in the Brazilian government. This time, instead of the prestigious Finance Ministry, he is tasked with heading up a relatively obscure ministry in charge of planning major civil works projects. Known for his outspokenness and for his staunch criticism of the Cardoso Administration (which he once supported as well), Ciro Gomes will try to bring considerable profile to this Ministry. The question is whether money will flow to his projects.



**COMMUNICATIONS.** Miro Teixeira, a Congressman and leader of the PDT party in Congress, is Lula’s choice for Communications Minister. His party was allied with Ciro Gomes’ party, making Miro Teixeira’s selection more about party politics than expertise in communications policy. That said, Teixeira’s views are clear — he publicizes his staunch opposition to the “neoliberal” privatizations of the Cardoso Administration. However, in his new job, the Minister will need to oversee the policies and regulation of the privatized telecommunications industry. He has said that he wants to bring the Internet to all public schools in Brazil – an already-funded program that was halted due to political infighting during the last Administration led primarily by the Workers Party. Watch for the inherent conflict between the Minister of Communications and the telecom regulator, ANATEL.



**HUNGER.** The centerpiece of Lula’s social agenda – the “Zero Hunger” program – will be led by Lula’s long-time friend José Graziano. Born in the U.S. while his father was doing post-graduate work, Graziano will take the lead in developing programs aimed at eradicating hunger. Expect him to focus not only on programs like food stamps but also on agrarian reform and family agriculture.



**CITIES.** Like Lula and others in the Cabinet, Olivio Dutra is a former union leader who turned to politics and helped found the Workers Party. He gained notoriety by developing the concept of “participatory budgeting” while mayor of the capital of the southern state of Rio Grande do Sul. His recent tenure as governor was not as positive – burdened by scandals, inability to control the landless movement excesses, and the loss of major foreign investments. Watch for his ability to enhance his standing through helping improve Brazilian cities.



**LABOR.** An activist and founder of the Workers Party in the northeastern state of Bahia, Congressman Jacques Wagner will seek to promote labor reform in Brazil that removes the government’s patriarchal position over organized labor and unleashes greater employment. Beyond the work of the Ministry, he will also keep an eye on his home state of Bahia, which he (and his party) hope to control in the next election.



**TRANSPORTATION.** Anderson Adauto is a Congressman from the Liberal Party of Minas Gerais. He was involved in the negotiations that brought the Workers Party to accept an alliance with the Liberal Party and put José Alencar in the Vice Presidential slot. Adauto’s mission will be primarily to find money to improve Brazil’s crumbling highways. Serious consideration is being given to having Army play a role in building and maintaining highways in Brazil.



**SCIENCE & TECHNOLOGY.** A former journalist and advisor in previous Lula presidential campaign, Roberto Amaral becomes the Science & Technology Minister primarily as a result of party affiliation. In Lula's cabinet, he will represent the Socialist Party of Anthony Garotinho, the losing-presidential candidate who also threw his support (and that of evangelicals) to Lula in the second round of voting. His comments suggesting Brazil should have capacity to produce nuclear weapons resulted in a rebuke from the President.



**CULTURE.** Music star Gilberto Gil is Lula's pick for Culture Minister and the most internationally known member of Lula's cabinet. Gilberto Gil was a founder of the counterculture Tropicalist musical movement of the 1960s, along with Caetano Veloso, another famous Brazilian composer and singer. Gilberto Gil belongs to the small Green Party, which supported Lula's campaign. Watch for his stance of intellectual property rights and piracy and his possible frustration with the role of a public servant.



### **OTHER CABINET LEVEL APPOINTMENTS**

*Background information available upon request*

Agrarian Development	<i>Miguel Rossetto</i>
Communications Strategy for the President	<i>Luiz Gushiken</i>
Economic and Social Development	<i>Tarso Genro</i>
Fisheries	<i>José Fritsch</i>
Human Rights	<i>Nilmário Miranda</i>
Institutional Security	<i>Jorge Armando Félix</i>
Public Relations for the President	<i>Ricardo Kotscho</i>
Secretary General of the Presidency	<i>Luiz Dulci</i>
Social Assistance and Promotion	<i>Benedita da Silva</i>
Sports	<i>Agnelo Queiroz</i>
Tourism	<i>Walfrido Mares Guia</i>
Women's Rights	<i>Emília Fernandes</i>