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## **New Scandal Hits Brazilian President Fernando Henrique Cardoso**

*by LADB Staff*

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A new scandal is affecting Brazil's President Fernando Henrique Cardoso, despite the refusal of the lower house to consider impeachment proceedings against him. The latest accusations stem from clandestinely recorded phone conversations that implicate Cardoso in questionable dealings connected with the privatization of Telecomunicacoes Brasileiras (TELEBRAS). In late May, various opposition politicians began calling for Cardoso's impeachment on the grounds that he acted improperly, and perhaps illegally, in the privatization process.

Charges that the president tried to influence the TELEBRAS sale arose when the daily Folha de Sao Paulo published transcripts of phone conversations in which Cardoso and then president of the Banco Nacional do Desenvolvimento Economico e Social (BNDES) Andre Lara Resende discuss pressuring officers of the pension fund of the state Banco do Brasil to give financial assistance to one consortium participating in the TELEBRAS auction.

The TELEBRAS privatization, which concluded July 29, 1998, brought in US\$19 billion, but many questions have been raised about the transparency of the process. Last November, denunciations about irregularities in the sale forced the resignations of Luiz Carlos Mendonca de Barros, then communications minister, and Lara Resende (see NotiSur, 1998- 11-20). After the publication of the transcripts, the opposition formally called for impeachment hearings against Cardoso. The petition was signed by the Partido dos Trabalhadores (PT), the Partido Democratico Trabalhista (PDT), Partido Socialista Brasileiro (PSB), and the Partido Comunista do Brasil (PCdoB).

Most analysts said the motive seemed more to further erode Cardoso's support than to succeed in ousting him. Cardoso musters support in Congress Nevertheless, within 24 hours, it was clear that the strength of the governing coalition coupled with the weakness of the opposition would prevent an impeachment process.

The parties that backed Cardoso in his re-election last October closed ranks to block the efforts of the minority opposition. The influential president of Congress, Antonio Carlos Magalhaes, gave the first sign that Cardoso's supporters would stick together when he said the charges raised by the tapes had been investigated last year and the investigation showed that Cardoso had not acted improperly.

Michel Temer, president of the lower house, said the information could indicate some irregularity, but "to initiate an impeachment process for that reason would be "too exaggerated a response." Cardoso expressed his "indignation" regarding the story in the Folha. He called the report "sensationalist" and said it makes "insinuations that do not correspond to the transcriptions of the

illegally obtained information." On June 1, Temer rejected the call for impeachment. "There are no objective reasons for a process of criminal responsibility against the president," he said.

Temer did, however, agree to a Comissao Parlamentar de Inquerito (CPI) investigation into Cardoso's alleged interference in the TELEBRAS sale. Meanwhile, the opposition, headed by PT leader Luiz Inacio Lula da Silva, said it will collect 5 million signatures to support impeaching Cardoso. In a poll conducted by Datafolha and published in the Folha de Sao Paulo on June 3, 82% of respondents in Sao Paulo said they favor a CPI investigation of the TELEBRAS privatization.

### *New conversations published*

On May 27, the Folha de Sao Paulo published more transcripts of conversations between high officials in the Cardoso administration, this time tainting Finance Minister Pedro Malan, Lara Resende, Stanley Fischer of the International Monetary Fund (IMF), and the US Treasury. In one conversation, which took place in late September, Malan tells Lara Resende that the IMF and US Treasury want advance access to a speech that Cardoso is set to deliver on Sept. 23.

In the speech, during Cardoso's re-election campaign, he admits that the country is in economic difficulty and speaks of the need for strong adjustment policies to be implemented. Fisher denied that the IMF had requested to see Cardoso's speech beforehand, according to an article in the Argentine daily Clarin. He suggested a possible error in translation by Malan, who is fluent in English. When presented with the transcripts by Folha de Sao Paulo, Fischer said they were fabricated.

On June 3, prosecutors from the Procuraduria General who are investigating the scandal set off by the illegal recordings said they want to question Cardoso in an effort to find out who was responsible for the recordings. Insider-trading investigation continues Meanwhile, an investigation into insider trading during the January devaluation of the real is continuing, but apparently running out of political steam. In May, a Senate committee said it would continue the investigation into irregularities in the banking system, but the probe of two financial institutions bailed out by the Central Bank following the devaluation is essentially over.

The Senate committee has begun investigations into alleged tax evasion at banks and will later look at institutions that showed surprisingly strong gains after the devaluation. "The two principal points that drew most attention have already been clarified," said Ricardo Pedreira, a political analyst at Santa Fe consulting firm. "Now, the [inquiry] enters a more routine phase, more predictable." The Senate investigated allegations that the now-defunct Banco Marka and Fonte Cindam had access to inside information prior to the devaluation and then received privileged treatment following the currency drop.

The Banco Central said it sold the two firms dollars at below-market prices to prevent their collapse out of concerns the whole financial system could be at risk (see NotiSur, 1999-04-16). Brazil's financial markets had feared the inquiry would taint Finance Minister Malan and other administration officials just as Brazil is beginning to improve its image abroad, but those concerns have proved unfounded. In the ongoing investigation, the CPI has authorized lifting the bank secrecy on several Swiss and Caribbean accounts of those under investigation, including former

president of the Banco Central Francisco Lopes and bankers Salvatore Alberto Cacciola and Luiz Antonio Gonzalves along with associates of the three.

### *Coalition shows signs of strain*

Although the parties backing Cardoso pulled together to block an impeachment process, political analysts see signs of strain within the bloc. On May 20, some leaders of the Partido do Movimento Democrático Brasileiro (PMDB) said they want former president and Minas Gerais Gov. Itamar Franco to lead an effort to get the PMDB to break with the coalition.

"We want the PMDB to leave the pro-government bloc, resign the government positions it holds, and join parties opposed to Cardoso in fighting what is happening in the country," said former governor of Sao Paulo Orestes Quercia, leader of the PMDB in Sao Paulo. The PMDB is the major party in the Senate, the second strongest in the Chamber of Deputies heads the most state and municipal governments, and is the dominant party in most state legislatures. Quercia said the conditions that brought the PMDB to support Cardoso no longer exist and that it is time for the national leadership of the party to evaluate its participation in the government. [Sources: Reuters, 05/17/99; Notimex, 05/26/99; CNN, 05/27/99; Clarin (Argentina), 05/26/99, 05/28/99, 06/02/99; El Nuevo Herald (Miami), 05/26/99, 06/04/99; Spanish news service EFE, 05/20/99, 05/22/99, 05/27/99, 05/28/99, 05/30/99, 06/02/99, 06/03/99, 06/08/99]

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