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Petrobras Scandal Intensifies as Brazil President Dilma Rousseff Endures New Protests

by Gregory Scruggs

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The Lava Jato anti-corruption investigation into Petrobras, Brazil's state-owned oil company, continues to indict major public figures ([NotiSur, March 20, 2015](#), and [April 10, 2015](#)). Although President Dilma Rousseff has yet to be implicated, the political fallout from the scandal has been severe as she prepares to face another major protest. Meanwhile, Petrobras' economic fortunes have gone from bad to worse, symptomatic of broader slowdowns in the Brazilian economy.

Operação Lava Jato began in March 2014 under the auspices of the Polícia Federal. While at first looking into money laundering, the investigation has since uncovered an operation suspected to have moved R\$10 billion (US\$2.89 billion). This vast sum of money was allegedly used to pay bribes that would tilt lucrative contracts in favor of certain construction companies. Among them, nine of Brazil's largest firms have been implicated.

Since the investigation began, there have been 57 arrests and 46 indictments. An estimated R\$2.1 billion (US\$610 million) in illegal funds has been confiscated. The size and scale of this operation, which has implicated many current and former politicians, including key figures in the ruling Partido dos Trabalhadores (PT), has reflected negatively on Rousseff. It has also fueled an intense opposition movement, which has organized a nationwide day of protest on Aug. 16 with more than one hundred cities confirmed.

Arrests, imprisonments, and refunds

The latest developments in the Lava Jato case have reached the highest levels of Brazil's political power structure. On Aug. 3, authorities arrested José Dirceu, a founding member of the PT and chief of staff to former President Luiz Inácio Lula da Silva. He is accused of acting as a mastermind behind the bribery operation, which enriched the coffers of his and several other political parties with funds allegedly used to finance election campaigns. Dirceu has not yet been formally charged. He was already on home arrest following his release from prison last year in an unrelated vote-buying corruption scandal ([NotiSur, June 24, 2005](#)).

At a news conference following the arrest, prosecutor Carlos Fernando dos Santos Lima said, "As in any company, a criminal organization has a pyramidal structure. These people say do it and others do it. ... They are responsible for putting the people in the right places." As a high-ranking government official, Dirceu is suspected of grooming candidates for key Petrobras offices who would facilitate the bribery scheme and receive handsome payoffs for their complicity.

Just two days later, the president of OAS, a major construction company involved in many of the 2014 World Cup and 2016 Olympics infrastructure projects, was sentenced to 16 years and four months in jail. Four of his colleagues received lesser sentences. OAS was responsible for more than R\$20 million (US\$5.78 million) in donations to Rousseff's re-election campaign, nearly 6% of her official budget according to the national electoral tribunal. In July, six executives at Camargo Correa,

another construction company, were sentenced to between six and 15 years in jail. Lawyers for the OAS executives have indicated that they will appeal.

Several under investigation have also pre-emptively readjusted their tax payments in light of Operação Lava Jato. One hundred and ninety-eight individual and business filings have been re-evaluated, yielding an addition R\$200 million (US\$57.8 million) in tax revenue for the Brazilian treasury. Tax authorities hope to collect up to R\$1 billion (US\$290 million) through such voluntary contributions by entities hoping to avoid prosecution. Fines have also been an effective tool in the investigation. On Aug. 10, a lobbyist who was caught earlier in the operation agreed to pay R\$70 million (US\$20.2 million) in compensation.

Economic and political turmoil

The economic implications of such a wide-ranging corruption investigation involving so many major figures in the Brazilian economy have been considerable. Petrobras, once one of the country's flagship companies, saw net profits drop 90% from the first to the second quarter of this year. Construction has been halted on the Comperj refinery in Itaboraí, outside Rio de Janeiro, a US\$50 billion project that attracted 20,000 workers seeking jobs. The refinery site and surrounding area now resembles a ghost town of unoccupied office towers and half-completed hotels.

In March, OAS filed for bankruptcy protection as the bribery scandal engulfed the company. It missed a local debt payment earlier in the year. Galvão Engenharia, another construction company, filed for bankruptcy after claiming that Petrobras was unable to make payments for its services. The symbiotic relationship between the state-owned oil giant and private construction firms, which abetted the scandal in the first place, is now causing economic aftershocks. The oil and construction sectors, after all, were major drivers of Brazil's recent economic boom.

The economic doom and gloom has not been caused by Operação Lava Jato, but it has not helped the spiraling misfortune of Brazil, where a global drop in commodity prices will lead to an expected GDP contraction of 2% this year. Now a bona fide crisis, the bad news has severely hampered Rousseff's second term, which began on Jan. 1 of this year.

The incumbent now has the lowest approval rating of any Brazilian president since Fernando Collor de Mello (1990-1992) in 1990, who was eventually impeached. Indeed, the calls for her impeachment or resignation continue to reverberate throughout the PT's opposition. Protests are planned in more than 150 cities in Brazil and 15 abroad on Aug. 16. An organizing group calling itself Vem Pra Rua Brasil, whose name echoes the June 2013 nonpartisan street protests ([NotiSur, July 12, 2013](#)), claims responsibility for the campaign. The rhetoric around the protests on social media inveigh against corruption, while honing in specifically on the PT, especially Rousseff and her predecessor, former President Lula.

The fever pitch of protest has reached a point that a routine ceremony to deliver public housing on Aug. 10 turned into an impromptu pro-Rousseff rally. Imploring the "free for all" against the government, Rousseff was greeted with cheers in São Luís, Maranhão. "More than ever, Brazil needs people to think first of Brazil, of what serves the populace, the nation, and only after think of their parties or personal projects," she said. Referring to the current economic crisis as a brief "crossing," she said, "I am working day and night, tirelessly, so that this crossing can be as brief as possible."

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