Petrobras scandal deepens with arrest of top Brazilian businessmen

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The political crisis surrounding the investigation into the massive bribes-for-contracts scandal at the Brazilian state-owned oil giant Petrobras has intensified during the recent weeks with the arrest of the CEOs of two of the country's biggest corporations.

At the same time, the Brazilian federal prosecutor has announced an official investigation of former president Luiz Inacio Lula da Silva for supposed "influence peddling" on behalf of one of these corporations, the Odebrecht conglomerate, which includes both the largest construction and petrochemical firms in Latin America.

Marcelo Odebrecht, the CEO of the conglomerate, and Otávio Márques de Azevedo, who heads Andrade Gutiérrez, Brazil's second-largest construction corporation, were detained and sent to Curitiba, the capital of the southern state of Paraná, to face trial before Sergio Moro, the federal judge and head of the Petrobras investigation, which is known as Operation Car Wash (Lava Jato) because of money laundering having been run out of a gas station.

Last Friday, prosecutors formally charged Odebrecht—the billionaire grandson of the multinational's founder—with "corruption, money laundering and criminal conspiracy."

Moro rejected a motion for the release of Odebrecht and four former directors of the multinational corporation, renewing their sentence to preventive detention. He said that, given their personal wealth and international connections (including a network of Swiss bank accounts used for payoffs), they posed a significant risk of fleeing Brazil to evade prosecution.

According to Moro, Odebrecht was detained for leading a company that "has been corrupting politicians for 10 years" and for his involvement in schemes that saddled Petrobras with overpriced contracts in return for the company kicking back bribes to corrupt executives as well as politicians of Brazil's ruling Workers Party (Partido dos Trabalhadores—PT) and other parties.

On Friday, prosecutors presented new evidence that one of these schemes involved a subsidiary of the Odebrecht group selling Petrobras naphtha, a petroleum product, at above-market prices, with Petrobras then re-selling it back to Odebrecht at a discount. According to prosecutors, this deal siphoned some $1.8 billion out of the state-run corporation.

Among the evidence presented in support of the charges of bid-rigging and kickbacks was a series of emails between Marcelo Odebrecht and other high-ranking company executives.

In one of the emails, Odebrecht mentions a postponed talk with "DR," initials which have been widely interpreted as referring to President Dilma Rousseff of the Workers Party. Before becoming president, Rousseff was the chair of Petrobras when the bid-rigging and kick backs were taking place. She has yet to be charged with involvement in these schemes.

The two top CEOs are only the latest heads to roll in the "Lava Jato" investigation. So far there are 13 senators, 22 deputies and two governors under investigation. Also under investigation in connection with the scandal was the former treasurer of the ruling PT, João Vaccari, whose arrest brought the probe closer to Rousseff and her government.

Recently accused as well is the president of Brazil's Chamber of Deputies, Eduardo Cunha, whose PMDB party is an ally of the PT government. Convicted lobbyist Julio Camargo was forced by federal judges to reveal that he had paid the equivalent of $40 million in bribes to PMDB and PT officials. According to Camargo, Cunha bullied him into paying $5 million for

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Petrobras contracts. After denying this, Cunha publicly announced he was breaking with Rousseff, as a response to becoming more deeply implicated in the investigation, and began supporting legislation opposed by the government.

Weeks before the arrests, Emilio Odebrecht—the father of Marcelo—apparently aware of the investigation's course, declared that if they "arrest Marcelo, they will have to create three more cells, one for me, one for Lula and even one more for Dilma." *Época* magazine also reported that, days before his arrest, Marcelo Odebrecht had been "talking with PT members and lawyers close to Dilma and Lula. He sent the same message: he will not go down alone."

Odebrecht's most lucrative years came during the two terms in office of former president Luiz Inacio Lula da Silva's (2003-2011) and Rousseff's first term (2011-2014). Neither Lula nor Odebrecht have denied their strong partnership and when Lula left office he became Odebrecht's—and Brazilian capitalism's—first and foremost lobbyist.

In early May, *Época* revealed that the former president was under state investigation for "international and national influence peddling" in which the state development bank BNDES was also implicated.

The magazine's article focused on Lula's visits to Cuba, the Dominican Republic, Ghana and Venezuela—frequently flying on Odebrecht jets. In each of these countries, Odebrecht eventually profited from contracts such as the $1 billion Mariel port expansion in Cuba and the extension of the Caracas metro in Venezuela. The most damning part of the accusations, however, would be the use of Lula's influence to allow Odebrecht to acquire over $1 billion in low interest loans from BNDES after he left office.

Odebrecht has denied any wrongdoing, while admitting that it had invited Lula to travel abroad to "promote Brazilian firms." A spokesman for Lula has called the magazine's report "trash."

For some time now, Lula—who left office in 2011 with an approval rating of 80 percent—has taken a critical posture towards the government of his successor Rousseff, leading to media speculation about plans for a return to power by the former metalworkers union leader. With the Petrobras crisis implicating ever wider layers of the political establishment, sections of the Brazilian ruling class may well have welcomed the return of Lula as a "stabilizing" figure. Now, however, he too has been caught up in the ever widening scandal.

A recent poll gave the lead to Aécio Neves, the former right-wing presidential candidate who was narrowly defeated by Rousseff in the last elections. According to *Folha de Sao Paulo*, Neves would get 35 percent of the vote and Lula 25 percent.

In another article, *Folha* quotes unnamed colleagues of the former president who declared that Lula is "afraid" of losing the next elections and "would only run if things change for the better."

While the right-wing PSDB may have achieved relative gains at the expense of the PT's wholesale discrediting in the Petrobras scandal, it is by no means any stranger to corruption itself and lacks credibility and broad support among the Brazilian population.

The right is also divided over the question of an impeachment drive against Rousseff, which is being promoted by the most extreme right elements. Others, such as Neves, have opposed such a course, fearing that it could unleash a political crisis that could spin out of control.

Under these conditions, the Rousseff government has itself swung ever more sharply to the right, imposing a series of austerity measures to placate the international financial markets even as the country's recession deepens. The IMF is forecasting a 1.5 percent fall in GDP for this year, while the Brazilian Central Bank predicts nearly 9 percent inflation, even after hiking interest rates up to 13.75 percent.

Brazil's official unemployment rate has climbed to 6.9 percent—compared to 4.8 percent a year ago. The rise reflected a sharp round of layoffs in the industrial and construction sectors, with 298,000 workers losing their jobs in just one year.

Meanwhile Rousseff's approval rating has fallen to a record low for any Brazilian president—just 7.7 percent.

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