

**BRAZIL: SPILLOVER EFFECT OF PETROBRAS CORRUPTION SCANDAL SUGGESTS NEW POLITICAL AND ECONOMIC CHALLENGES AHEAD OF THE 2016 OLYMPICS**

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Since the beginning of 2015, large protests have been taking place across Brazil targeting President Rousseff and her political party, the Workers' Party (PT). These protests are addressing different issues but the disruptive factor has doubtlessly been the explosion of the Petrobras corruption scandal. Though the Petrobras corruption case opened last year in 2014, it is currently being the focus of media attention as arrests are being made and more information is being revealed. The scandal and its spillover effect could be a turning point in the country's history and create new political and economic challenges ahead of the 2016 Olympic Games to be held in Rio de Janeiro.

These demonstrations come only a couple of months after Dilma Rousseff was re-elected for a second mandate in October 2014 with 51,6% of the votes, marking the fourth victory in a row of the PT, but also its lowest popularity score in Presidential elections. The latest developments in the scandal were a reinvigorating factor for demonstrations against the President. On November 3<sup>rd</sup>, thousands had already demonstrated in Sao Paulo to protest against the re-election of Rousseff and her government's involvement in the Petrobras scandal.

To recall, the Petrobras scandal was brought to light last year when an investigation by the Brazilian Federal Police revealed that the semi-public giant oil company was illegally financing political campaigns of most parties in the government coalition. It is worth mentioning that all top officials working at Petrobras were politically appointed by the government at the time, Rousseff's PT, and that the Brazilian government is the company's main stakeholder. Dilma Rousseff is in the spotlight as she served as chairwoman on Petrobras' board during the bribery affair.

Among the latest developments in the scandal is the stepping down of the PT's Treasurer, Joao Vaccari, on April 15, after being charged with alleged corruption. He is accused of large-scale money laundering and bribery at Petrobras. More specifically, the PT supposedly received money skimmed from artificially inflated contracts between oil top officials and construction firms. Joao Vaccari is personally accused of receiving 3% of the value of the contracts that were signed.

Besides the PT's Treasurer's case, over 40 politicians from both houses of Congress are also under investigation, showing that the affair has reached all levels of government and is making the actual political stability in Brazil unpredictable.

Following the public release of the latest developments, some interest groups have requested the impeachment of President Dilma Rousseff and her cabinet, while opinion polls show her popularity at a record low. To recall, on April 12, hundreds of thousands of people marched across the country to denounce government corruption, economic difficulties and to demand the ousting of President Rousseff. According to an opinion poll mediated on April 11 by the local newspaper 'Fohla de Sao Paulo', 63% of the population would be in favor of the opening of an impeachment procedure against the Head of State.

The anti-government protests that took place in April are not unprecedented. Though pro-government protests did happen as well, they were by far outnumbered by the anti-government ones. For instance, on March 13 thousands of people, led by oil union workers, as well as labour and civilian movements, demonstrated in over 20 cities to show their support to the President and Petrobras. However, 2 days later these pro-government rallies were clearly outmanned. On March 15, almost one million of people gathered in the main cities of the country to denounce the scandal and ask for the President's impeachment, making clear what the current public opinion trend was.

Besides the political implication of the corruption scandal, ongoing construction projects by companies involved in the scandal are being slowed down or temporarily suspended. International media reported the freezing of payments of 23 construction groups by Petrobras. For example, the national biggest road project of building a belt around Sao Paulo to regulate traffic had to be interrupted, as the company responsible is also under investigation. As a result, thousands of workers are being laid off.

The corruption scandal explosion is allegedly a challenge to the preparation and infrastructure building ahead of the 2016 Olympics in Rio de Janeiro, considering Petrobras' freezing of contracts and the imprisonment of some of its top executives. In addition to this, in early January, several Petrobras construction contractors' credit ratings were downgraded by the rating agency. Top Brazilian firms working closely with Petrobras, the country's largest company, also had to suspend their activities. For example, the oil service company Schahin had to suspend its operations on five drills it runs for Petrobras, as the corruption scandal also affected it.

From a business perspective, the national economy has been affected by the current situation as Petrobras contributes to 13% of Brazil's GDP and has lost much of its market value since September. The Petrobras case could be devastating for the country as its investment adds up to 2% of the national GDP. Internationally, Petrobras is also in trouble as it is being sued by British and American pension funds and corporate investors asking for compensations of billions of dollars.

The Petrobras scandal and its implications for the construction industry is not the only challenge to the preparation of the 2016 Olympics. Different protests on other socioeconomic issues risk expanding ahead of the 2016 Games. On April 1<sup>st</sup>, dozens of inhabitants of the favela of Vila Autodromo protested against their displacement

ahead of the Olympic Games. While roughly 90% of the slum inhabitants have accepted to be displaced following pressure or offers from the local government, about 50 families refuse to leave the place. The resistance by favela inhabitants is likely to grow as the date of the games is approaching and as construction companies need to resume their activities to prepare for them.

The actual situation recalls last year's protests around the World Cup 2014 that had triggered tough criticism of the government spending policies. To recall, almost a year ago, Brazil was faced with multiple protests, sometimes violent, before and during the World Cup across the country. On July 14, nearly 300 protesters had launched a protest rally in Rio de Janeiro, just before the final game had begun at the Maracana Stadium. Protesters were denouncing high spending in the tournament preparation instead of investing in the public health and education sectors. On June 29, around 350 anti-World Cup protesters also demonstrated at the Maracana Stadium. On June 24 it was the cities of Sao Paulo and Brasilia that were occupied with hundreds of protesters. The highest number of anti-World Cup protests recorded was doubtlessly during the first week of the tournament. A total of 21 protests were reported in the country. 12 of them were violent and included clashes with security forces. The largest one occurred on June 12, when about 1,000 of people gathered in Rio de Janeiro. The total outcome of the protests in the first week was the arrest of 180 people and several injured, including at least 7 journalists.

The preparation of the 2016 Olympics is allegedly threatened by other protests beside those related to the oil company corruption scandal and to the displacement of people in favelas. Other segments of the population have been demonstrating across the country. On April 15, Brazilian trade unions went on a national strike in more than 30 cities in 24 of the 27 states to reject the labour bill on subcontracting currently being analysed by the Congress. The labour bill would supposedly encourage labour exploitation by companies and firms. Brasilia, the administrative and political heart of Brazil, was also the target of protests on April 14 when thousands of indigenous camped on the Ministries' square in the centre of the city to ask for land demarcation, in the Federal District. This indigenous protest was preceded by a similar one. On December 17, activists from the same group occupied the Congress for the same reason in Brasilia.

The discontent with the government expressed by the majority of the Brazilian population has led the opponent political parties to ask the military to overthrow the President, to which the armed forces responded negatively as they judged undemocratic to lead a 'coup d'état'. Though the probability of an overthrow of the government is put aside, it is worth mentioning that the current situation with protests across the country by different groups of interests has increased the government's vulnerability. According to reported events, protests are on the rise in general, and it is likely that they will be even more numerous as the 2016 Olympic Games approach. The likeliness of protests rising could allegedly undermine the political and economic stability of the country.

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