

From: Diptel BRASILIA (Sensitive) [REDACTED]
Sent: 20 November 2015 13:00
To: Diptel FCO (Sensitive)
Subject: [REDACTED] MINING DISASTER IN BRAZIL INVOLVING BHP BILLITON [DIPTTEL 1507649]

Diptel BRASILIA (Sensitive)

Foreign & Commonwealth Office Diplomatic Telegram

Summary

Burst dams cause at least 11 deaths and environmental destruction in heart of Brazil's mining country. Humanitarian tragedy is overtaken by fears of an environmental disaster. Anglo-Australian mining giant BHP Billiton at centre. What it means for Brazil, [REDACTED]. How we are helping. Report from consulate in Belo Horizonte.

1. On 5 November two dams burst at an iron-ore mine in Bento Rodrigues, a village approximately 120km southeast of Belo Horizonte, where we have just opened a small, trade focussed Consulate. 11 people confirmed dead, 15 missing and a village of 600 people buried under sludge.
2. Luckily, no British citizens were affected. [REDACTED]. The mine is operated by Samarco, a joint-venture between Vale, [REDACTED] Brazilian mining company, and BHP Billiton, the Anglo-Australian miner. Samarco is leading the response. [REDACTED]. The dispossessed were housed, fed and treated at company expense within hours of the disaster.
3. However the 62 billion litres of dirty water released have now polluted the Rio Doce, a main link between Minas Gerais state and the Atlantic Ocean, and hit the neighbouring coastal state of Espirito Santo. Water supply to a quarter of a million people has been affected.
4. [REDACTED]. Dilma and her environment Minister have since declared this Brazil's worst ever environmental disaster – comparing it to Deepwater Horizon.
5. The pictures of destruction are now prompting emergency supplies of water from other parts of Brazil, mainly driven by social media. Experts are predicting that it could take up to ten years for the river to revive. The clean-up will be long, painful and very expensive.

What does this mean for the sector

6. Samarco have already been hit with fines, totalling approximately £45 million. [REDACTED]. They have set up a £175 million trust fund to address the environmental and social impacts.
7. There have already been calls for tougher regulation [REDACTED].
8. Anglo American, one of the largest foreign investors in Brazil, [REDACTED]. They have invested heavily in Brazil and have already written down USD 2.9bn for their own iron ore mine in Minas Gerais. [REDACTED]. Ditto the oil and gas investors eg Shell and BG both on the way to investing USD 20 billion here.

9. But this is a sector that matters to the Brazilian, and the local, economy. 30% of Minas Gerais' economy is driven by the mining and metallurgy sector. Winning Minas Gerais won Dilma the election last year. [REDACTED].

What next for BHP Billiton

10. BHP Billiton will inevitably take a big reputational and financial hit, [REDACTED]. The company has so far been transparent and accepting of responsibility. [REDACTED].

How are we helping

11. We have been in regular contact with BHP Billiton, up to and including the global CEO; [REDACTED]. Our new Consulate in Belo Horizonte is leading. We've briefed the company's humanitarian adviser and are exploring how UK technology can help the clean-up. [REDACTED].

ELLIS

Authorised
Alex Ellis | Ambassador | [REDACTED]

Contact
[REDACTED]

Action
[REDACTED]

From: Diptel BRASILIA (Sensitive) [REDACTED]
Sent: 24 November 2015 20:51
To: Diptel FCO (Sensitive)
Subject: [REDACTED] BRAZIL: REACTIONS TO MACRI'S VICTORY [DIPTTEL 1507749]

Diptel BRASILIA (Sensitive)
Foreign & Commonwealth Office Diplomatic Telegram

Summary

No official reaction yet from Dilma. [REDACTED].

1. Argentina is traditionally Brazil's greatest rival and most important neighbour. Trade flows are worth USD 14bn. Argentina is Brazil's third biggest export market, 40% of which are automobiles. [REDACTED].

What might Macri mean?

2. [REDACTED]. There has been no official comment on Macri's win, but the Brazilian press reports that Dilma has already invited Macri to Brazil in the coming days, potentially before he takes office on 10 December. [REDACTED].

[REDACTED]

[REDACTED].

Regional issues

4. Macri's intention to prioritise relations with the region first, chimes with Brazil's own focus. **[REDACTED]**.

Economy

5. Brazil will see greater potential on the economic side. Finance Minister Joaquim Levy commented that Macri's victory had created "favourable dynamics" for Brazil "especially if they move toward a more liberal economy", and that Brazil needed to increase its productivity in order to further increase bilateral trade with Argentina.

6. Macri's victory should improve the chances of progress on the EU-Mercosul FTA. **[REDACTED]**. This is relevant to the EU's position at the 27 November FAC, and our approach to it.

ALEX ELLIS

Authorised
Alex Ellis | HMA | **[REDACTED]**

Contact
[REDACTED]

From: Diptel BRASILIA (Sensitive) **[REDACTED]**
Sent: 27 November 2015 14:19
To: Diptel FCO (Sensitive)
Subject: **[REDACTED]** NEXT STAGE OF PETROBRAS SCANDAL - SENIOR SENATOR AND TOP BANKER ARRESTED [DIPTTEL 1507868]

Diptel BRASILIA (Sensitive)
Foreign & Commonwealth Office Diplomatic Telegram

Summary

Leader of government coalition in the Senate and Brazil's star investment banker arrested for attempts to prevent their names appearing in Brazil's long-running corruption investigation. [REDACTED].

1. As reported to the department, Brazil's Supreme Court ordered the arrests on Wednesday of Senator Delcídio do Amaral (PT – Workers' Party) and Andre Esteves, CEO and main shareholder, of BTG Pactual, Brazil's biggest investment bank. Amaral was arrested on the

grounds of witness tampering, caught on tape. Esteves was accused of trying to obstruct ongoing federal investigations by illegal possession of leniency agreements.

2. The recordings, broadcast on prime-time, are of an attempt to buy off Nestor Ceriveró, one of the former Petrobras directors under investigation, to avoid him mentioning Amaral, Esteves and others in his plea bargain. A lawyer was recorded saying he could influence Supreme Court judges and senior politicians, including the Vice President, to ensure Ceriveró's release.
3. As required by the Constitution, the Brazilian Senate then had to decide on Amaral's detention. After a protracted attempt by the Senate President (and sometimes government ally) to hold the vote in secret, a open vote of 59 to 13 confirmed the decision, and made Amaral the first sitting Senator in the democratic era to be held under arrest. Although 9 of the 13 were PT Senators, the party has already begun distancing itself from Amaral.
4. There are two shocks, **[REDACTED]**. First, that the Senate has **[REDACTED]**, and allowed the detention. Second, Esteves' arrest. He is respected and much-fêted success story, of intern to CEO. BTG Pactual manages £36bn in assets, £14bn in wealth management, and 4000 staff worldwide, and has its European HQ in the UK, employing 312 staff. **[REDACTED]**.
5. The arrest of Amaral, **[REDACTED]**, reduces Dilma's ability to drive deficit reduction measures through Congress, which need to be approved by 30 November. Her government had had a few small successes in recent weeks, such as maintaining vetoes on proposals from the legislature costing £7bn. That gets harder without Amaral. The government has shifted from a 2015 fiscal target of a 1.1% primary surplus to a 2.1% deficit (which turns into a nominal deficit of 9.5% because of the high cost of debt servicing), because of repayment of previous creative accounting debt and a 4.5% fall in inflation-adjusted tax revenues. **[REDACTED]**.
6. Amaral's arrest also worsens the prospects for achieving a primary surplus of 0.7% in 2016. Amaral was an advocate of the adjustment package in Congress and is rapporteur for 20 amendments to a specific proposal on repatriation of money stashed abroad. This crucial element of the package (estimated to be worth £18-26bn) has cleared the lower house and awaits a vote in the Senate. Appointing a new rapporteur will delay its passage. This all complicates Finance Minister Levy's work, and raises the risk of a downgrade, but may strengthen his hand in the event of a full-blown budgetary crisis.

7. Esteves' arrest caused a 20% drop in the stock of BTG Pactual, though its credit rating remains unchanged. The Real fell by 1.35%, BOVESPA's (Sao Paulo stock exchange) financial sector by 2.75%, and credit default swaps rose by 1.24%.
8. The arrests creep slowly upwards. They show both the Prosecutor-General and Supreme Court's willingness to enter new territory, and the weakening of politicians' immunity. Claims on the recording of potential influence over the court will likely have strengthened public scrutiny and the judges' own resolve.
9. In parallel, Dilma also faces a politicised impeachment process, currently in the hands of Chamber leader Eduardo Cunha, the centre of a different corruption case. **[REDACTED]**.

ALEX ELLIS

Authorised
Alex Ellis | Ambassador | **[REDACTED]**

Contact
[REDACTED]

Action
[REDACTED]

From: Diptel BRASILIA (Sensitive) **[REDACTED]**
Sent: 03 December 2015 18:22
To: Diptel FCO (Sensitive)
Subject: **[REDACTED]** IMPEACHMENT BOX IS OPENED [DIPTTEL 1508017]

Diptel BRASILIA (Sensitive)
Foreign & Commonwealth Office Diplomatic Telegram

Summary
Lower House Speaker starts impeachment process, [REDACTED].

1. Deputy Eduardo Cunha, Speaker of the Lower House, decided late on 2 December to start the process that could lead to impeachment proceedings against President Dilma Rousseff.
2. Cunha, **[REDACTED]**, is part of the PMDB: **[REDACTED]**, and Dilma's largest coalition partner. He is very powerful, **[REDACTED]**. The Ethics Commission is attempting to vote on his mandate as Speaker, **[REDACTED]**.

3. Of the 34 impeachment requests **[REDACTED]** Cunha chose one alleging that the federal government used 'creative accounting' to reach this year's budget target, breaking the fiscal responsibility law.
4. In response Dilma went on the offensive, **[REDACTED]**: 'I committed no illicit acts, there are no suspicions of embezzlement on me, I have no accounts abroad'. She did not address the specific charges against her.
5. Earlier that day, Dilma had been buoyed by the Lower House voting to update this year's fiscal target from a surplus to a deficit. This enabled the government to avoid breaking the fiscal responsibility law (DIPTTEL 1507868), weakening the impeachment process against Dilma, and indicating a small government victory **[REDACTED]**.

What next

6. To impeach a President requires two-thirds support of both Houses. Cunha probably doesn't have the votes. The Lower House will now create a special commission to evaluate the request, with deputies from all parties, and Dilma will then have ten sessions to present her defence: all likely to spill into early 2016 at the soonest. The special commission's final report needs two-thirds of the House to approve the impeachment process. Should that happen, Dilma would have to step down for up to 180 days before the Senate makes a final decision, again by two-thirds.
7. In 1992 an impeachment process forced President Collor out of office, although he jumped before he was pushed. **[REDACTED]**.

What this means

8. **[REDACTED]**.
9. For now, I think Dilma is **[REDACTED]** likely to survive through next year. **[REDACTED]**.

ALEX ELLIS

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Alex Ellis | Ambassador | **[REDACTED]**

Contact
[REDACTED]

Action
[REDACTED]

From: Diptel BRASILIA (Sensitive) [REDACTED]
Sent: 07 December 2015 18:50
To: Diptel FCO (Sensitive)
Subject: [REDACTED] BRAZIL: REACTIONS TO VENEZUELA PARLIAMENTARY ELECTIONS [DIPTTEL 1508110]

Diptel BRASILIA (Sensitive)
Foreign & Commonwealth Office Diplomatic Telegram

Summary

No official reactions yet, but Brazil relieved that Venezuela went to the polls [REDACTED]. peacefully and democratically. [REDACTED].

Brazil-Venezuela relationship

1. Brazil's relationship with Venezuela has cooled since the days of Chavez and Lula, who put in place measures that saw bilateral trade grow sevenfold between 2003 and 2012. Politically, Lula acted as a mediator between Chavez and US and Colombian administrations.
2. [REDACTED]. The countries continue to be tied by an important – though unbalanced – economic relationship. Ten per cent of Venezuelan imports come from Brazil (making it the 8th largest market for Brazilian imports), while Venezuela is responsible for only 1.3% of Brazilian imports. Brazilian companies have contracts worth around USD 20bn with Venezuela – but the economic crisis in its northern neighbour means that payment of a significant chunk of these (estimates put this in excess of USD5bn) has been delayed or unpaid. [REDACTED].

What do the election results mean for Brazil?

3. The government has not yet made any official statement. Commentators have largely welcomed the results, hoping that it will bring “fresh air” to the political and economic situation in Venezuela.
4. Brazil was watching the process just as closely as the results. The government will be relieved that the elections, on the day at least, seem to have taken place “within the framework of democracy”, [REDACTED] from the Brazilian MFA. [REDACTED].
5. [REDACTED].
6. Much of Brazil's efforts [REDACTED] have taken place behind closed doors. In mid-November, Foreign Minister Vieira had to reassure the Senate's Foreign Affairs Committee that he did have a strategy of “silent diplomacy” in hand. The administration became noticeably more vigilant in the run up to the elections. In a letter to Maduro on 20 November (hand delivered by her Foreign Policy adviser, Marco Aurelio Garcia) Dilma called on the Venezuelan

government to prevent any acts of violence or intimidation that could cast any doubt on the credibility of the elections and the legitimacy of the results, and noted that the elections would have an “important impact not only on Venezuela, but also on Mercosul, Unasul and the Americas.”

7. Unusually, this bilateral relationship has spilled over into domestic politics. In July 2015, a delegation of Brazilian senators who went to Caracas were met and promptly hounded out **[REDACTED]**. Access to political prisoners (the reason for their trip) was denied. Unsuccessful 2014 Presidential Candidate Aécio Neves complained bitterly to Dilma (herself a former political prisoner) about the group’s treatment, prompting the MFA to release a statement condemning “hostile actions towards Brazilian Congressmen”. **[REDACTED]**.

ALEX ELLIS

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Alex Ellis | HMA | **[REDACTED]**

Contact

[REDACTED]

Action

From: Diptel BRASILIA (Sensitive) **[REDACTED]**

Sent: 17 December 2015 19:15

To: Diptel FCO (Sensitive)

Subject: **[REDACTED]** BRAZIL – THE DEEPER TRENDS DRIVING TURBULENCE [DIPTTEL 1508411]

Diptel BRASILIA (Sensitive)

Foreign & Commonwealth Office Diplomatic Telegram

Summary

[REDACTED]. On Tuesday the police raided the speaker’s house. On Wednesday Fitch downgraded Brazil . At time of writing the Supreme Court is deciding whether the impeachment process can go ahead. [REDACTED].

The end of a cycle

1. Brazil’s economy nearly doubled in size between 1994 and 2014, because of sound macroeconomic policies, a credit boom and favourable winds from China. The long cycle of growth is now over. The economy is in its worst recession since 1929-30. The attached economic round up gives a flavour.
2. In some ways Brazil is better prepared for this recession than previous ones; no hyperinflation, bank runs, currency crisis, or risk of military intervention. **[REDACTED]**.

Increased expectations

3. **[REDACTED]**. New consumers notice both how little their money buys **[REDACTED]**.
4. In June 2013 1m+ young protesters demanded better public services and political accountability. **[REDACTED]**.

Tackling impunity

5. Until 2013 only one sitting federal legislator had gone to jail; and even then Congress tried to let him keep his seat. **[REDACTED]**. In late 2013, because of the relentless determination of the then President of Brazil's Supreme Court, one of very few black men in Brazilian public life, the Supreme Court jailed politicians over a 2005 cash-for-votes scandal.
6. This, and the creation of a plea bargaining system in Brazilian law, has opened the floodgates. The judge investigating the Petrobras scandal is looking at 47 politicians and has locked up Brazil's top business leaders. Centuries of impunity for the elite have been stripped away in two years, targeting **[REDACTED]** payments to politicians for votes, presidential decrees, contracts and soft state bank loans. **[REDACTED]**.
7. **[REDACTED]**.

[REDACTED]

8**[REDACTED]**:

[REDACTED].

[REDACTED]

9. **[REDACTED]**.

10. Brazil has entered turbulence, as it tries to work out its new settlement. 45% of Brazilians now identify themselves as 'right' or 'centre-right'. The current Congress is the most conservative

since democracy returned, including a halving of the number of union-affiliated MPs after the 2014 elections. That said, most Brazilians support a bigger state than other middle income countries. But they want it to work, and now see that more spending does not necessarily lead to better outcomes.

11[REDACTED].

ALEX ELLIS

Authorised
Alex Ellis | Ambassador | [REDACTED]

Contact
[REDACTED]

Action
[REDACTED]

From: Diptel BRASILIA (Sensitive) [REDACTED]
Sent: 21 December 2015 19:41
To: Diptel FCO (Sensitive)
Subject: [REDACTED] BRAZIL: NEW YEAR – NEW FINANCE MINISTER [DIPTTEL 1508507]

Diptel BRASILIA (Sensitive)
Foreign & Commonwealth Office Diplomatic Telegram

Summary

Brazil has a new Finance Minister- Nelson Barbosa. Joaquim Levy resigns [REDACTED] over the 2016 primary budget target and a downgrade by Fitch. Barbosa is likely to continue to work for the fiscal adjustment and structural reforms that Brazil badly needs, [REDACTED].

Levy Resigns

- 1) Finance Minister Levy resigned on Friday 18 December. A University of Chicago trained economist, he was brought in after the President Dilma's re-election to take the difficult decisions on economic reform that Brazil desperately needs.
- 2) [REDACTED]. This came to a head last week with President Dilma rejecting his proposal for 0.7% primary surplus target with no offsets in 2016 settling for a more modest 0.5% target, though Congress sided in part with Levy by excluding offsets. The price of wavering fiscal commitment for Brazil was downgrade by S&P and Fitch. Brazil bonds are now rated 'junk' by 2 out of 3 ratings agencies, raising the cost of capital and making recovery harder.
- 3) On the face of it, a 2.1% primary fiscal deficit in 2015 as against a targeted 1.1% surplus, [REDACTED]. The reforms he introduced could have got Brazil to a breakeven primary fiscal position in 2015 (from a 0.6% deficit in 2014) had tax revenues not fallen so sharply

(£9bn) and had he not had to pay bills (£10bn) accumulated in 2013 and 2014
[REDACTED].

[REDACTED]

- 4) Nelson Barbosa has moved from the Planning Ministry to take over at Finance.
[REDACTED]. The Government does not have the money for interventionism. Moreover, Barbosa resigned from the Finance Ministry, where he was number two, in 2013 because he would not **[REDACTED]**.
- 5) Barbosa has said all the right things on his appointment. He wants to continue the fiscal adjustment. He floated the idea of a hard spending cap to control the 90% of Government spending that is obligatory and intends to present a proposal to introduce a minimum retirement age in 2016. He and Levy had been working together on a range of infrastructure proposals including a revised infrastructure investment plan, improved public private partnerships and proposals to attract international investors. These areas are in line with UK interests.
- 6) Deeds matter more than words now, as Barbosa himself noted. **[REDACTED]**.
- 7) **[REDACTED]**.

MIR

Authorised
Wasim Mir | Chargé d'Affaires | **[REDACTED]**

Contact
[REDACTED]

Action
[REDACTED]