

# Brazil's DCNS Submarine Contract

 [sites.tufts.edu/corruptarmsdeals/2017/07/21/brazils-dcns-submarine-contract/](https://sites.tufts.edu/corruptarmsdeals/2017/07/21/brazils-dcns-submarine-contract/)

Samuel Perlo-Freeman

21 July 2017, 2:53  
pm

## Introduction

Operation Car Wash (“Lava Jato”), the sprawling investigation into public-sector corruption that brought down Brazilian President Dilma Rousseff, is also threatening to tarnish a submarine contract signed in 2009 with French state-controlled shipbuilder DCNS. In addition to agreeing to provide four Scorpène diesel-powered attack submarines, the French company committed to help the Brazilian military build a new submarine construction facility and develop its first nuclear-powered submarine—the object of long-standing ambitions. Since 2015, however, Brazilian authorities have been investigating the construction firm Odebrecht S.A., DCNS’ local partner on the submarine contract, for potential corruption related to the 2009 deal. French investigators launched a parallel inquiry into DCNS’ conduct in the fall of 2016.

## Key facts

*Buyer:* Brazil

*Sellers:* DCNS (France), Odebrecht (Brazil)

*Year of Procurement Decisions:* 2008

*Equipment sold:*

4 Scorpène Submarines, 1 nuclear submarine (design assistance and production of non-nuclear parts), 1 submarine construction site (technical assistance).

*Value of deal:* EUR 6.7 billion

*Sum involved in corruption allegations:* EUR 45 million (estimate)

## Dramatis Personae

José Amaro Pinto Ramos – lobbyist, businessman, and arms-broker. Suspected of receiving and transmitting bribes.

Othon Pinheiro da Silva – former Brazilian Navy vice-admiral and leading figure in its nuclear enrichment and naval propulsion programs; later head of Eletronuclear. Sentenced to 43 years in prison for bribe-taking in relation to a nuclear power plant project; under investigation for bribe-taking in relation to the submarine deal. Released for medical reasons in October 2017.

## The Deal

In December 2008, Brazil’s president, Luiz Inacio Lula da Silva, endorsed a new strategic defense plan focused on protection of the Amazonian rainforest and the country’s newly discovered offshore oil reserves. Before that year’s recession, the price of oil had peaked at

around USD 150 a barrel, contributing to an arms-acquisition binge in neighboring Venezuela. Later that month, President da Silva and his French counterpart, Nicolas Sarkozy signed a bilateral defense cooperation agreement for the purchase of helicopters and submarines from France worth a total of EUR 8.6 billion. Of that total, the vast majority, about EUR 6.7 billion, was devoted to meeting the aims of Brazil's ambitious submarine development program ("Programa de Desenvolvimento de Submarinos," or "Prosub"), which calls for the domestic production of both diesel- and nuclear-powered submarines.

In a series of contracts signed in September 2009, DCNS, the French state-controlled shipbuilder, committed to building the bow of one Scorpène diesel-powered submarine in France and overseeing the construction of all other sections of four total conventional submarines in Brazil. In addition, the contracts partnered DCNS with the Brazilian construction firm Odebrecht to build a new submarine construction facility and naval base in the Bay of Sepetiba, near the city of Itaguaí in the state of Rio de Janeiro. Beyond serving as the new assembly location for the four Scorpène submarines, it would also be home to Brazil's first nuclear-powered submarine. DCNS agreed to help Brazil's Navy design and build the key non-nuclear components of this new vessel class. The technology transfer involved in the project was estimated at worth EUR 1 billion, and DCNS agreed to additional offset requirements involving the local procurement of 36,000 items.

The first submarine's bow was laid down in 2010 at DCNS' facility in Cherbourg, France. In 2013, President da Silva's successor, Dilma Rousseff, inaugurated Brazil's new hull-manufacturing plant in Itaguaí. As of November 2016, the first diesel-powered submarine is expected to launch in 2018, with the other three following in 2020, 2021, and 2022. The nuclear submarine was expected to launch in 2025, but funding shortfalls at the facility developing Brazil's indigenous naval nuclear reactor may set back the timetable further.

## The Investigations and Outcomes

In 2015, Brazilian police began examining the possibility of corruption in the submarine deal as an outgrowth of the larger public-sector anti-corruption investigation known as Operation Car Wash. Authorities were drawn to the acquisition program through Brazil's civil nuclear program and Odebrecht's involvement in both. In July 2015, police arrested Othon Luiz Pinheiro da Silva, a retired vice-admiral who was a driving force in the Brazilian Navy's nuclear research. Pinheiro da Silva had since 2005 been the chief executive of Eletronuclear, the nuclear power subsidiary of state-owned electricity company Eletrobras. A key item in his portfolio of responsibility was the construction, in a consortium with Odebrecht, of the Angra 3 nuclear power plant. Investigators suspected that Pinheiro da Silva received around USD 1.2 million in bribes related to the project, and in August 2016 a court sentenced him to 43 years in prison for corruption, money-laundering, and other crimes. In October 2017, he was released for medical reasons.

In December 2016, Odebrecht reached a cooperation agreement with authorities in Brazil, the United States, and Switzerland, involving a BRL 23 billion fine and a commitment to divulge details of its wrongdoings. One of the revelations that followed from this agreement was the disclosure of two hidden payments related to the submarine deal. One payment

was to Pinheiro da Silva; an Odebrecht employee claimed that the former vice-admiral had been sent EUR 4.5 million. Other members of Eletronuclear's board may have received bribes as well.

The other payment was to businessman José Amaro Pinto Ramos. In April 2017, Odebrecht officials testified in court that Amaro Ramos had been paid EUR 40 million to ensure the company would be DCNS' partner in the submarine project. According to their testimony, the money for the bribes had been secured through diversion of a rebate for services provided by the Belgian construction company Jan De Nul. They also claimed that a portion of the payments, BRL 50 million, had been earmarked for the Partido dos Trabalhadores (PT), Brazil's ruling political party; later reporting suggests the money was received by a PT official, treasurer João Vaccari, who is currently serving a 24-year corruption sentence.

Amaro Ramos, a well-connected lobbyist and business partner of Pinheiro da Silva, had previously been investigated and is wanted for questioning in Switzerland for money-laundering related to his activity as a middleman in a 1990 contract to acquire subway trains for São Paulo from Alstom and Siemens. According to the Brazilian press, Amaro Ramos had also worked as an arms-broker and approached Odebrecht to gauge its interest in the submarine deal in 2006. In April 2017, his lawyer claimed that he had worked for DCNS on the submarine deal and had been paid only EUR 17.5 million as compensation for his services.

In May 2017, first the Brazilian newspaper *Estadao* and then the French outlet *Le Parisien* reported that French officials were also looking into the deal. According to the report by *Le Parisien*, later confirmed by Reuters, the *Parquet National Financier*, a prosecutorial office set up in 2013 to investigate financial crimes, had been looking into the deal since October 2016 and was focusing on whether any entities under its jurisdiction paid bribes to foreign officials. Following the report in *Le Parisien*, DCNS denied any wrongdoing.

Both the Brazilian and French investigations are ongoing and have not yet resulted in indictments.

## Sources

Eduardo Simoes, "Experts say Brazil-France defence pact wrong choice," Reuters, Oct. 10, 2008, <http://uk.reuters.com/article/uk-brazil-defense-idUKTRE49972A20081010>.

"Brazil, France sign major defense pact," Reuters, Dec. 23, 2008, <http://uk.reuters.com/article/brazil-france-idUKN2354358020081223>.

Igor Gielow, "Lula e Sarkozy fecham acordo militar de R\$ 22,5 bi amanhã," *Folha de São Paulo* (online), Sep. 3, 2009, <http://www1.folha.uol.com.br/fsp/brasil/fc0609200902.htm>.

Brazilian Ministry of Defense, "Acordo Brasil-França para compra de aeronaves, submarinos, e helicópteros," presentation, Sep. 16, 2009, [http://www.senado.leg.br/comissoes/cre/ap/AP2090916\\_Acordo\\_Brasil\\_Franca.pdf](http://www.senado.leg.br/comissoes/cre/ap/AP2090916_Acordo_Brasil_Franca.pdf).

Roberto Godoy, "Submarinos brasileiros começam a sair do papel," *Estadão* (online), May 1, 2010, <http://politica.estadao.com.br/noticias/geral,submarinos-brasileiros-comecam-a-sair-do-papel,545654>.

"Brazil launches construction of four Scorpene-class submarines," RIA Novosti, July 18, 2011, <http://www.defencetalk.com/brazil-launches-construction-of-four-scorpene-class-submarines-35705>.

"Brazil launches program to build nuclear submarine in a decade," Reuters, Mar. 1, 2013, <http://www.reuters.com/article/brazil-defense-submarines-idUSL1N0BT5WK20130301>.

"Brazilian police to probe nuclear submarine program – Folha," Reuters, July 29, 2015, <http://www.reuters.com/article/brazil-petrobras-submarines-idUSL1N10917520150729>.

"Head of Brazil's nuclear energy development sentenced 43 years in jail for corruption," *MercoPress* (online), Aug. 9, 2016, <http://en.mercopress.com/2016/08/09/head-of-brazil-s-nuclear-energy-development-sentenced-43-years-in-jail-for-corruption>.

Andrea de Sá, "Brazil's Nuclear Submarine Program: A Historical Perspective," *The Nonproliferation Review*, Vol. 22, No. 1, (2015), pp. 3-25.

Fabio Serapião and Beatriz Bulla, "Odebrecht relata propina para projeto de submarino nuclear da Marinha," *Estadão* (online), Dec. 15, 2016, <http://politica.estadao.com.br/noticias/geral,odebrecht-relata-propina-para-projeto-de-submarino-nuclear-da-marinha,10000094692>.

João Lara Mesquita, "Submarino nuclear da Marinha: corrupção," *Estadão* (online), Dec. 24, 2016, <https://marsemfim.com.br/submarino-nuclear-da-marinha-nao-escapa>.

Helena Sthephanowitz, "Quem é José Amaro Pinto Ramos, o empresário que operou para Serra a propina da Odebrecht," *Diário do Centro do Mundo* (online), Apr. 9, 2017, <http://www.diariodocentrodomundo.com.br/quem-e-jose-amaro-pinto-ramos-o-empresario-que-operou-para-serra-a-propina-da-odebrecht>.

Ricardo Brandt, Fausto Macedo, and Julia Affonso, "Odebrecht pagou 40 milhões de euros por contrato de submarinos," *Estadão* (online), Apr. 14, 2017, <http://www.defesaaereanaval.com.br/odebrecht-pagou-40-milhoes-de-euros-por-contrato-de-submarinos>.

Ricardo Brandt, Julia Affonso, and Fausto Macedo, "Delator aponta origem de R\$ 98 milhões de propina em submarino da Odebrecht," *Estadão* (online), Apr. 18, 2017, <https://politica.estadao.com.br/blogs/fausto-macedo/delator-aponta-origem-de-r-98-milhoes-de-propina-em-submarino-da-odebrecht>.

Julia Affonso, Ricardo Brandt, Fausto Macedo, and Luiz Vassallo, "Propina da Odebrecht em submarino passou por conta no Caribe," *Estadão* (online), May 9, 2017, <http://politica.estadao.com.br/blogs/fausto-macedo/propina-da-odebrecht-em-submarino-passou-por-conta-no-caribe>.

Timothée Boutry, Jean-Michel Décugis, Myriam Encaoua, and Eric Pelletier, "Vente de sous-marins au Brésil: une enquête pour corruption est ouverte," *Le Parisien* (online), May 21, 2017, <http://www.leparisien.fr/faits-divers/vente-de-sous-marins-au-bresil-une-enquete-pour-corruption-est-ouverte-20-05-2017-6967692.php>.

"French prosecutors investigate DCNS submarines sale to Brazil: source," Reuters, May 21, 2017, <http://www.reuters.com/article/us-france-brazil-submarines-idUSKBN18H0I9>.