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Brazil's Rousseff under pressure after party treasurer jailed

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By Sergio Spagnuolo

CURITIBA, Brazil (Reuters) - Brazilian police on Wednesday arrested the treasurer of the ruling Workers' Party Joao Vaccari, moving an investigation of rampant corruption at state-run oil company Petrobras closer to President Dilma Rousseff's inner circle.

Federal police said they arrested Vaccari in his home in Sao Paulo and drove him to the southern city of Curitiba. There he will stand trial for alleged graft, political kickbacks and money laundering, the latest prominent Brazilian caught up in a multibillion-dollar probe.

Vaccari's arrest could bring the investigation closer to the president if the money allegedly siphoned from the oil firm, Petroleo Brasileiro SA, is found to have helped finance her 2010 or 2014 election campaigns.

The Workers' Party deplored the arrest and announced that Vaccari was leaving his position for legal reasons. A party statement expressed confidence in his innocence.

Federal judge Sergio Moro ordered Vaccari's arrest after five defendants testified in plea bargain agreements that engineering firms hired by Petrobras had overcharged the oil firm and passed on profits to the Workers' Party via Vaccari.

"Anyone responsible for such severe crimes, including using the position of treasurer of a political party to raise criminal funds and corrupt the political system, is a risk to public order," Moro wrote in a court order.

Vaccari, indicted on March 16, is the closest political figure to Rousseff to be jailed in the year-old Petrobras scandal. The investigation threw her government into a crisis at the start of her second term this year when it widened to include 47 politicians, all but one from her governing coalition.

Former Petrobras executives have said Vaccari moved over \$200 million in graft money skimmed off overpriced construction and engineering contracts.

Vaccari denied the accusations last week before a congressional inquiry commission. He and the Workers' Party say all campaign donations from the construction and engineering companies were legal and registered with electoral authorities.

Federal Prosecutor Carlos Fernando dos Santos Lima said investigators had since found incriminating evidence. One of the firms paid 1.5 million reais (\$487,000) to a graphics company that never provided any services, and the money ended up as a donation to the party, he said at a news conference.

Police also took a statement from Vaccari's wife as they investigate the family's bank accounts, looking at suspicious deposits, and have an arrest warrant his sister-in-law.

Some leading members of the Workers' Party have called for Vaccari's resignation, but he and the party have insisted on his innocence.

Rousseff has denied knowledge of the graft scheme at Petrobras that mainly operated while she was chairwoman of the oil company, but the scandal has set off nationwide protests against her government and calls for her impeachment.

Opposition leaders have become more open to impeaching Rousseff following recurring protests against her and opinion polls showing most Brazilians believe she is responsible for corruption at Petrobras.

Aecio Neves, who narrowly lost to her in the October elections, said on Monday that there was a "very strong" case for impeachment and his centrist PSDB party is studying that option, though no decision has been taken.

Antonio Carlos Thame, a legislator and senior PSDB leader who was slapped down in February for advocating impeachment, said Vaccari's arrest bolstered his case.

"This warrants taking a good look at the impeachment of a president whose government is marked by illegal acts and corruption," Thame told Reuters.

(Writing by Anthony Boadle and Caroline Stauffer; Editing by W Simon and Christian Plumb)

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