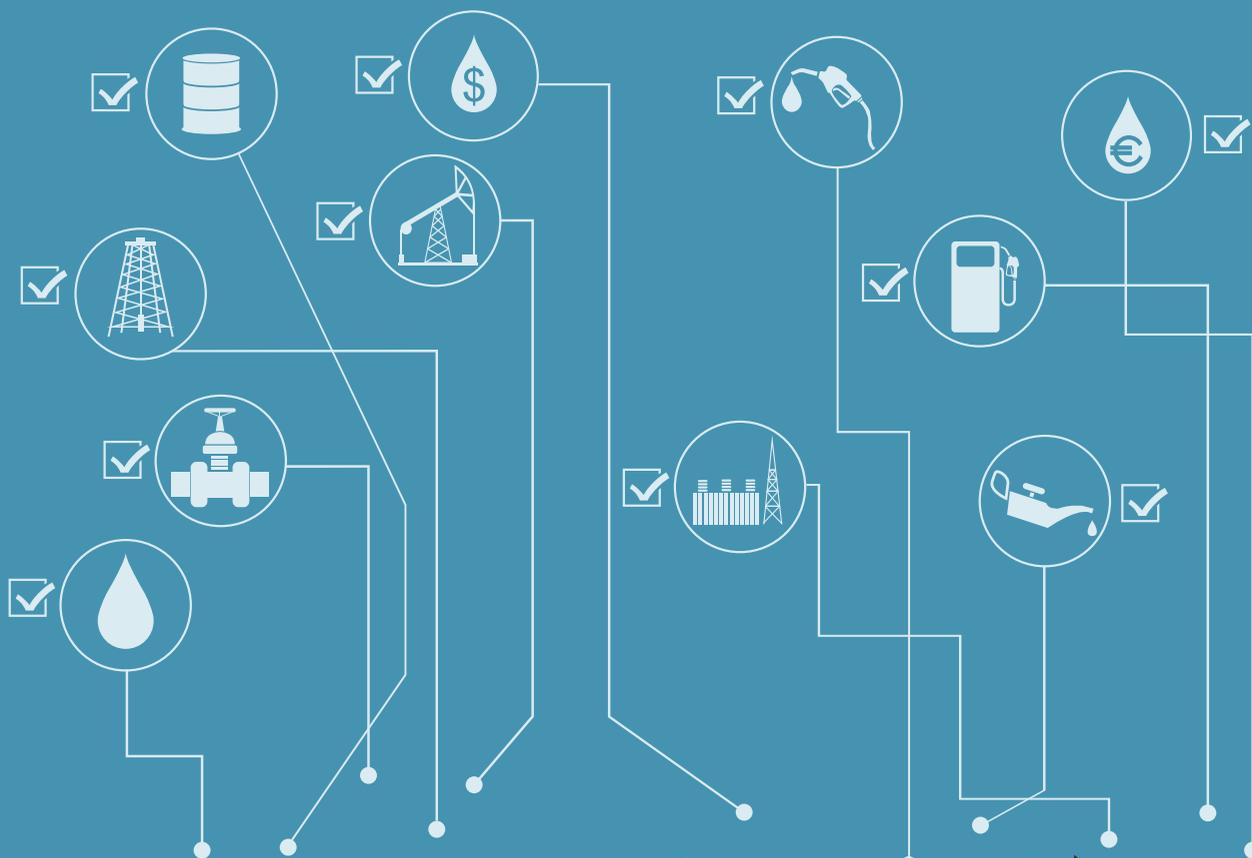


# CARTA DA INDÚSTRIA

Year XVI – Oil and Gas Special Edition  
October 2015

## COMPLIANCE PROGRAM

COMPETITIVENESS AND TRANSPARENCY  
IN THE OIL & GAS INDUSTRY



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INFORMING, FORMING, TRANSFORMING

## CONFORMITY AND INTEGRITY IN THE OIL & GAS MARKET

**Eduardo Eugenio Gouvêa Vieira**  
*President of the Sistema FIRJAN*

The development of a product goes through numerous specifications before hitting the market. It is associated with a number of other settings as target audience, its added value and the cost structure. Not less important, is to ensure the supply, to attend quality specifications and to build brand trust. These are key requirements that depend on ethics, transparency and corporate responsibility as solid values for building a company.

The same logic applies to a nation, state, sector and, of course, a company. Today, we are at a serious turning point in the oil and gas market globally. In Brazil, the course of the Car Wash Operation investigation exposed serious issues regarding the conduct of business between the main operator in the country, contractors and suppliers.

When we talk about oil and natural gas we must highlight the importance of compliance in all actions of the companies. The contracts signed in this market are based on giant amounts incomparable with any other type of business, when, even in times

of recession, investments surpass the barrier of billions.

Since then, the theme Compliance Management gained momentum in the market. The term refers to the management and care of the procedural standards and norms. While acting honestly, the company ensures credibility to all stakeholders. Aware of this movement, Sistema FIRJAN implemented its internal compliance committee.

To meet compliance needs in the oil and gas market is essential for the entire process. So, it is crucial that both the companies and the governmental authorities make clear what attitudes are being taken to ensure

conformity and what the negotiation rules between the parties are.

On the other hand, these attitudes should not only be demanded by those who are direct investors, but also by the entire society. The better the Compliance Management is, the better will be not only the financial returns, plus all services provided to the condition of living in the country.

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***So, it is crucial that both the companies and the governmental authorities make clear what attitudes are being taken to ensure conformity***

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## ANP IS STUDYING CHANGES IN REGULATION OF EXPLORATION AND PRODUCTION CONTRACTS

The regulation of the Research, Development and Innovation clause (RD&I) of oil exploration and production contracts should expect changes soon. By this clause, concessionaires are obliged to invest 1% of the gross revenue of fields in RD&I, of which 50% in institutions accredited by the National Agency of Petroleum, Natural Gas and Biofuels (ANP) and only the remaining in the companies' projects.

The general director of ANP, Magda Chambriard, says that the change aims "to improve the rules for application of financial resources, in order to create an environment more favorable to creating innovation in the country". ANP presented various proposals. One of them suggests that the Agency would be responsible for the approval of programs and projects and determine where private resources would be allocated.

### COMPANIES REACTION

However, there were several contributions from companies and professional associations, according to Raimar van den Bylaardt, director of the Brazilian Association for Research and Development of Innovative Companies (Anpei), entity that defends a better flexibilization of the investment rules.

"The concessionaires must invest the resources. We expect



*Schlumberger Research Center in Rio de Janeiro: investment in RD&I*

more resources being applied for equipment manufacturers. We believe that the locus of innovation is within the industry. It is the industry that effectively makes innovation, a cycle that ends with the placement and acceptance of the product in the market".

Bylaardt says it is necessary to focus on the joint work of the concessionaires with the industry, as everything involving oil requires large equipment. "We are not talking about a small technological development, a laboratory process; we are talking about an industrial process", he highlighted.

Schlumberger's Marketing Director, Alejandro Duran, says that we need to consider points such as confidentiality of information related to

technologies, products and processes.

"The protection of intellectual property resulting from the project should also be considered", he noted.

### LOCAL CONTENT

ANP is also studying changes in the regulation of local content. The proposals are for improvement to consider changes in relative price and change in project scope, using a formula of Global Neutralized Local Content.

Another point that is being considered is for Brazilian raw materials counting as local content in foreign supplies via Repetro – special customs regime for export and import of goods for research activities of exploration of oil and natural gas deposits.

## NEW CHALLENGES FOR RIO DE JANEIRO INDUSTRIAL BASE

To increase competitiveness to return the growth rate is the main challenge of the oil and gas industry of Rio de Janeiro state, according to industry experts. One of the answers of the Sistema FIRJAN to find solutions that meet this challenge is the Mapping of the Industrial Base of Rio de Janeiro. The project, developed in partnership with the National Organization of the Petroleum Industry (Onip), aims the development of actions and projects that contribute to improve the business environment and competitiveness of associated companies.

The Oil, Gas and Shipbuilding Manager of the Sistema FIRJAN, Karine Fragoso, adds that the motivation to implement this project is to know better the installed capacity of the industry, as well as its challenges, "in order to promote the local industry and achieve a converging work agenda for development of the oil and gas market".

According to Karine, the challenges of this market begin with the low oil barrel price, and the pre-salt exploration conditions with a sole operator. "This scenario is worsened by the lack of prospects for new demands in the short term", the manager analyzed.

According to Onip's general director, Eloi Fernández y Fernández, the goal is to create an industrial policy specific for the sector. "The idea is to work with a target of 100 companies in the state, in all links of the suppliers' network. The project should continue until April 2016. In the end, it will be possible to build a



Image bank/iStock

*The return of the growth rate is one of the main challenges of the oil & gas industry*

portfolio of services and products more adherent to the industry needs", he explained.

### ALTERNATIVE SOLUTIONS

Fernández y Fernández considers that the search for competitive solutions is the way out of the stagnation that oil companies face. "The oil market, admittedly, is going through a deep crisis in Brazil, by domestic issues and aggravated by the new level of international prices. The reduction of investments and costs led to an unprecedented drop in demand. In this scenario, the challenges for suppliers are huge. Budget cuts and management optimization are inevitable measures".

For Raul Sanson, vice-president of the Sistema FIRJAN, the scenario of reduced demand requires a repositioning of the

industries, in order to adapt to the current market reality. Companies must have efficient cash flow management. "At a time of instability, it is necessary to have more efficient management to overcome the market challenges. To that end, it is important to look within the organization and identify what can be optimized in production processes", says Sanson.

To Paulo Cesar Martins, president director of ABESPetro – Brazilian Association of Petroleum Service Companies, it is necessary to have an extensive industrial policy: "We need an industrial policy of medium and long-term that is export oriented and covers multiple clients".

### NEW OPPORTUNITIES

However, Fernández y Fernández noted that despite the reduction

of the activities, investment and funding represent relevant amounts. So, one should be aware of new opportunities, especially to take advantage of this moment to define new strategies and adjustment to new products and services.

Therefore, José Mauro Ferreira, commercial director of FMC Technologies Brazil, says that we must develop clients and not suppliers. The challenge is how to attract investments from the 14 operators, besides Petrobras, which acquired 45 oil blocks in deep areas to develop fields in the country or how the Brazilian industry can participate in their international development projects.

"While these pre-salt blocks are not being developed, a motivation would be the recognition of local content of operators' investments, as, for instance, the purchase of Brazilian equipment to be allocated in its projects abroad", Ferreira suggested. He justified that this kind of initiative is excellent, as creates immediate demand and helps the internationalization of the industry.

FMC Technologies pursued best practices in more advanced industries, with larger production scale. They researched processes used in the manufacture of cars and aircrafts, for better production efficiency focused on cost reduction. The company adopted lean production and the use of prototyping.

Another direction taken was to seek convergence of technologies to develop simpler equipment, maintaining or



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***"While pre-salt blocks are not being developed, a motivation would be the recognition of local content of operators' investments in Brazil"***

***José Mauro Ferreira***  
*Commercial Director of FMC Technologies Brazil*

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increasing its functionality, with lower costs, like the experience of the electronics industry, he pointed out.

For Sanson, companies need to plan actions aimed at productivity improvements for when demand returns. "Global demand did not follow the growth of oil supply. Today we have a retraction on investments, but opportunities

need to be explored again. Brazil has very large reserves in the pre-salt layer", he concluded.

### **UNBUNDLING OF THE SUPPLY CHAIN**

Cezar Vasquez, superintendent director of Sebrae/RJ, notes that the oil productive chain works with a high degree of deverticalization of the supply chain. This management practice generates many opportunities for small businesses to become suppliers of goods and services. "Identifying opportunities and knowing who the customers are in the oil and gas supply chain are the biggest challenges of the companies", he noted.

### **SUBSEA CLUSTER**

Rio de Janeiro State already has several subsea companies installed. The segment is responsible for enabling oil production. Among the companies are operators and large suppliers of subsea equipment and service providers.

Some of the challenges in the sector include the distance from the field to the coast, that can reach up to 300 km in the pre-salt, and exploration depth above 3,000 meters. The technological development in the subsea area counts on a knowledge hub installed in the Technological Park of Rio de Janeiro, located on the campus of the Federal University of Rio de Janeiro.

Martins highlights the qualification of the segment in Brazil. "Companies must have their production targeted to export in order to compensate the retraction in the domestic market", stated the president director of ABESPetro.

## COMPLIANCE, A MATTER OF SURVIVAL

Compliance program is a competitive factor for companies and institutions of all economic segments. The adoption of governance measures offers more transparency to business and reinforces ethical commitments of corporations. The Relations with Associates Executive Director of the Sistema FIRJAN, Ricardo Maia, believes that compliance is a permanent practice in the oil & gas market.

“As Petrobras, a large market demander, requires compliance with rules from its suppliers, it replicates to other companies throughout the supply chain. Other organizations will start demanding the same requirements. Companies will need to adapt their processes or may not manage to maintain their operations in this market”, Maia warned.

According to him, one of the advantages of the process is to find gaps in the implementation of the code of conduct, both in internal programs as well as in external relations: “For instance, in the way of dealing with contracts, orders and deliveries”.

The director of the Sistema FIRJAN alerts to the fact that there are companies that are not yet organized to deal with the new reality. “In large companies this is not a new practice, but in small and medium-sized ones it is. In many of them, the compliance functions are exercised by their owners”, Maia noted.

### MARKET APPLICATION

Renato Bertani, executive director of Barra Energia, points out



Image bank/iStock

For the oil & gas industry, compliance measures are a factor of competitiveness

**“No company, whether contractor or supplier, will be able to survive without the application of solid governance practices”**

**Renato Bertani**  
Executive Officer of Barra Energia

that this is not just a matter of ethics, but something that makes economic sense. “No organization, whether contractor or supplier, will be able to survive without the application of solid governance practices. Currently, for a company to have access to capital, it must have a strict

program of ethics, transparency and anti-corruption practices”.

Bertani mentions another positive impact of the process: “If a company wants to monetize some or all of its assets, potential buyers will probably investigate whether if there is a compliance program implemented. Otherwise, there is a tendency for devaluation of assets”.

Specifically in the case of Barra Energia, which has among its investors the two main American private funds focused on the energy sector – First Reserve and Riverstone –, Bertani explains that the company implemented a compliance program as part of its business model, since the first day of activity, in 2010.

The organization implements compliance programs, but their effectiveness depends on

the leadership that comes from the management. "Barra Energia has an Audit Committee and a Chief Compliance Officer. In the Board, there is the ombudsman, a person to which all have access confidentially, discreet and in total security, if there is any impropriety to report", he noted.

Bertani stresses that at least once a year, all employees, the directory and the board, with participation of two representatives from each of the two shareholder funds, undergo training program dedicated specifically to compliance. In this program rules are reviewed with checks if there was any change in Brazilian laws and of other countries, such as United States and Great Britain.

### ADVANTAGES FOR THE COMPANY

The CEO of Shell Brazil, André Araujo, says that companies are always striving to improve their performance in a competitive business and rapid changes environment. "The focus on performance must come with the certainty that the laws and regulations of the countries where we operate are being met", he noted.

Among the advantages for the company, he mentions the business protection and the promotion of good relationships with its employees, business partners, clients and governments. "These stakeholders can, somehow, influence the

results of a company", Araujo complemented.

He added that work honestly, transparently and with integrity allows the company to build healthy relationships and a solid reputation. "Not to proceed in this way undermines the confidence and weakens the very principle of the organization", he completed.

According to him, Shell Brazil encourages its partners, including contractors and suppliers, to adopt good governance standards. Also, the company has a number of programs and training to inform and help employees to comply with the laws and internal

## RISK MANAGEMENT AND COMPLIANCE



### What is it?

Prevention and detection system of non-compliance with existing laws and regulations in the company's processes and business, by:

- Imposing standards
- Applying disciplinary measures
  - Exerting assertiveness and transparency in management
- Working for continuous improvement
  - Preserving business, its assets, in addition to its reputation and institutional image



### Benefits

- Greater credibility
- Market recognition
  - Improvement the organization's image
- Effectiveness in processes
  - Not overtax the supply chain
  - Reduction and mitigation of risks
- Better management of assets and staff



### Occurrence in the O&G market

In the oil & gas market, companies apply risk prevention programs in business to ensure the integrity of organizations and their assets.

policies. "Our program runs from the identification, analysis and assessment of risks to compliance till a 24 hour helpline so that the employees can make queries and notifications, if they prefer, anonymously", Araujo explained.

The CEO of Shell Brazil highlighted the positive impacts for the industry by following rules of good practices. "A strong compliance culture protects and promotes good

relationships with employees, customers, governments and other stakeholders. Ultimately, it is an important catalyst for business because it raises the morale of employees and attracts investors and partner", he noted.

When questioned if due to the current crisis scenario Shell Brazil has adopted any new practice, the executive explained that the company has clear guidelines against any kind of favoring

or corruption practice: "We continually monitor the emergence of trends, internal and external risks to improve the adequacy and effectiveness of our compliance management system. We have a comprehensive program that includes geographic risks, new business development and protocols of joint ventures, including a ban on political and electoral payments, among other factors".

## SISTEMA FIRJAN IMPLEMENTS COMPLIANCE COMMITTEE

Aware of the trend of corporate governance, in late September, Sistema FIRJAN implemented its Compliance Committee, chaired by the former minister of the Supreme Federal Court, Ellen Gracie. For the president of the Federation, Eduardo Eugenio Gouvêa Vieira, the committee will be another tool of spreading good governance practices for the industry of Rio de Janeiro. "Now, with this new committee, we will look ahead and give an internal guidance to our organization and on how our members should proceed with good governance practices. We want this to be set as a good example for similar organizations, such as federations and associations", Eduardo Eugenio highlighted.

Eduardo Eugenio also stresses that Sistema FIRJAN has already a set of standards and rules which serve to shield the organization from suspicious acts, such as an Ethics Committee and a Code of Ethics, which work both to solve conflicts and to avoid the use of personal interests.

Ellen Gracie pointed out that compliance is nothing more than a general idea of adherence, obedience of the rules, the legal framework and good market practices. According to her, the current facts and the institutional crisis in large companies, such as Petrobras and Eletrobras, demonstrate

that there was a detachment from the old commercial practices, based on reliability and partners' reciprocity.

"Unfortunately healthy relationships were deteriorating over time and nowadays we have come to a situation like this in the country, in which it takes a huge effort within the organizations to rescue the confidence not only of the Brazilian citizens, but also of the international community. This situation is indeed so serious that this initiative will have a multiplier effect, transforming the business environment around us", declared the former minister.

Among the first initiatives of the committee, Ellen Gracie mentioned the dissemination of the idea of compliance through trainings and even emergency services, in case some company needs to improve its management. She emphasized the importance of creating an agenda for new generations, through courses of SESI and SENAI.

The new working group is composed by the Operations Executive Director, Alexandre dos Reis, Corporate Management Executive Director, Fernando Nóbrega, Relations with Associates Executive Director, Ricardo Maia, in addition to the Legal Director, José Roberto Borges, and the Legal General Manager Gisela Gadelha, and the Internal Audit Manager, Alexandre Sadler.