



Corruption and Crisis: the case of Petrobras ¹

Introduction

Oil and gas have been the epicenter of the energy matrix from the early twentieth century as a result of the dominance of the automobile industry in the capitalist development. Despite efforts to diversify this matrix based on non-renewable and polluting resources, such as oil, gas and coal, they still account for about 80% of the average global energy. Of this total, oil and gas account for over 50%. Many analysts forecast this situation will continue in the upcoming 30 years². In Brazil, the dependence on oil is below the world average given the possibility of using large-scale hydropower.

Besides oil being a key element in the energy system, it also is an important raw material for other industries such as plastics, colorants, solvents, pharmaceuticals, etc.

The complex oil and gas supply chain can be understood from the division between the chain share dominated by supply (Upstream) and the segment dominated by demand (Downstream). The transport of crude oil and gas (called first distribution) could be considered a division of the upstream supply chain (midstream) or part of this since in many cases it is made by subsidiary companies of major oil corporations.

The main stages of the upstream supply chain are: exploration, drilling, production and transportation of crude oil and gas to the refineries. The figure 1 below illustrates this oil chain division.

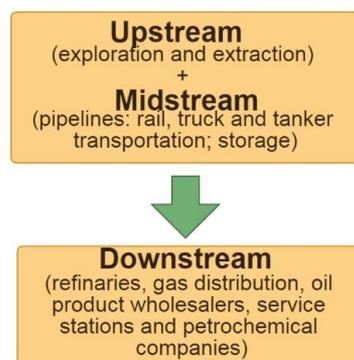
The activities of the upstream supply chain are led by major oil corporations and involve a myriad of subsidiaries, contractors and subcontractors. The governance of the upstream supply chain is carried out in a hierarchical manner and under the leadership of the major oil corporations. This segment of the oil and gas supply chain absorbs more than 70% of the value added generated in the whole activity.

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² World energy outlook 2015

The crude oil must be processed and refined to obtain the derivatives as liquefied petroleum gas (LPG), naphtha, petroleum, diesel, kerosene, aviation oil, lubricants, asphalt, petrochemicals, aromatics, etc. The processing and placement of derivatives of crude oil at the consumer market (called second distribution) are made by the downstream supply chain and involve a great complexity. The figure 1 below summarizes the process.

Figure 1. Oil and Gas Global Supply Chain



Source: Based on Chaturvedi, Nikhil – Collaborative Web for Natural Resources industries. Supply Chain Management:

The purpose of this paper's first part is to examine the case of *Petróleo Brasileiro S.A.* (Petroleum of Brazil -Petrobras) the main mixed capital Brazilian company founded in 1953, that currently is the focus of major corruption investigations in the so-called *Car Wash Operation*.

The severe crisis caused by the systemic corruption that impacted Petrobras has created a domino effect within the whole oil and gas extraction and production chain in Brazil that led to the contagion effect in whole Brazilian Economy.

This paper reviews the oil and gas context in Brazil and the political, economic and legal determinants that led to its crisis and the contagion effect within the chain.

1. Petrobras a brief history

In 1953 the Brazilian government created the monopoly and state-owned Petrobras³

³ Law No. 2004 of October 3, 1953, established the state oil monopoly company called Petroleum of Brazil (Petrobras). Getulio Vargas, then president of Brazil, created Petrobras and designated General Juracy Magalhães as president of the newly created company. The military structure of the company based on meritocracy was maintained during the following decades, having been reinforced during the Brazilian military regime (1964-1985). This Petrobras military structure was renovated in the second government of President Fernando Henrique Cardoso (1999-2003) but it kept the same meritocracy principle. Nevertheless, in 2003 the first president of the



after a long and fervent national campaign whose motto was "The oil is ours". It is necessary to explain that the country's industrialization effort had dominated the political and economic agenda since the 1930s. The issue of oil in Brazil was also part of the discussions on how to carry out a late industrialization process. It was a crucial issue given the importance of oil in the energy matrix of the development model based on the automotive industry.

As in the general debate on national development, understood as the industrialization process of the country, the question of how to prospect, extract, refine and distribute oil in Brazil was controversial. The opinion groups were divided between supporters of greater participation of international private capital with less state capital or the reverse combination meaning more state and less private international capital. However, everyone agreed that the Brazilian development or industrialization should count on both: private international and state capital.

In short, the core disagreement was the form and extent of foreign capital and state productive capital participation. Those who supported a more open and market-friendly economy advocated greater participation of private international capital at the expense of state participation. The other group, the so-called national development activists, believed that the greater involvement of the state in economic activity would preserve a national character to the industrialization process, but they acknowledged it to be impossible to achieve the desired economic development without the participation of foreign capital.

The creation of the state monopoly Petrobras reflected this context. The stages of extraction, production and oil refining constituted a monopoly by a state-owned company, but the distribution of derivatives continued to be made by large international companies such as Shell and Exxon. In 1953, oil production in Brazil was very low, consequently, the main function of Petrobras was to import and refine oil in the country. Furthermore, the onshore oil reserves in Brazil were not promising.

By the end of the 60's, during the military regime, Petrobras began to expand investments in the prospecting area of oil reserves along the vast Brazilian coast⁴. The first offshore

Partido dos Trabalhadores (Workers Party- PT), Lula da Silva, abandoned the merit criterion replacing it by the loyalty to the Party (PT) and participation in the union structure. From the beginning until then, being part of Petrobras was a pride and proof of competence. The admission of the personnel was only made through much disputed national contests. During more than 50 years being part of Petrobras meant meeting the highest development goals in the country

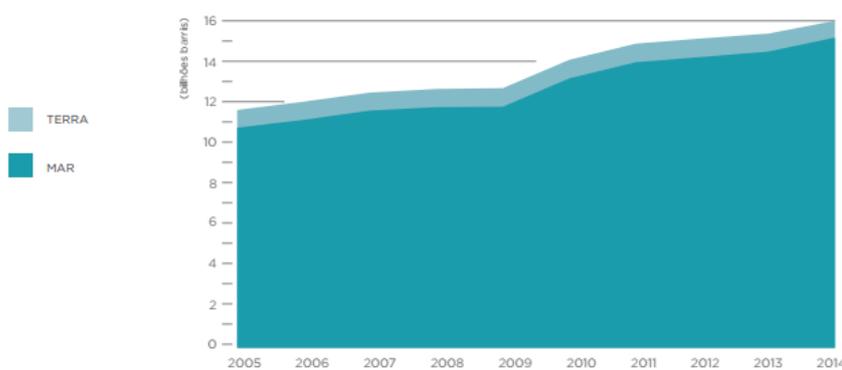
⁴ General Juracy Magalhães, the first president of Petrobras, hired the American geologist Walter Link from Standard Oil to lead Petrobras' Exploration & Production area. Mr. Link hired Stanford University to organize graduate courses in geology as well as he

oil field with 80m depth was discovered in 1968 in Guaricema (Sergipe) in the northeast of Brazil. Six years later, the reserves in the Campos Basin (State of Rio de Janeiro) were found raising the country's oil reserves to 1.3 billion bbl by 1980.

This strong growth was due to the significant increase in investments in prospection, extraction, and production of new areas of oil reserves. The oil crises of 1973 and 1979 associated with the Brazilian debt crisis exerted strong pressure to increase domestic production of oil and its derivatives. Subsequently, Petrobras increased its production capacity from 180,000 to 530,000 bbl / per day between 1980 and 1985. As a result, in 1985, domestic production covered 50% of the country's oil consumption.

The chart below shows how the oil reserves in Brazil are distributed demonstrating the accuracy in the Petrobras decision to invest heavily in prospection and extraction on offshore oil.

Figure 8. Onshore and Offshore oil reserves in Brazil



Source: Anuário Estatístico Brasileiro do Petróleo, Gás Natural e Biocombustíveis ,205 -Agência Nacional de Petróleo, Gás Natural e Biocombustíveis (ANP) p.80

Consequently, investments in both prospection and oil extraction in ultra-deep water, with fields between 400m to 2000m depth, enabled the company to develop its own advanced technology, since a technology adaptable to operating oil in ultra-deep water was not available in the world market. The main oil fields in Brazil are represented in the

was responsible for creating training courses for skilled personnel to operate the company. Mr. Link was also tasked with making a diagnosis of the possibilities of oil existence in Brazil. In 1960, the findings of the five years investigation were condensed in the *Link Report*. According to this study, there was a low probability of encountering onshore oil, but it pointed to the fact that oil could be found offshore. As the results were not as expected, the *Link Report* was harshly criticized. The inflated nationalist atmosphere of the early sixties in Brazil ended Link's participation in Petrobras. However, the conclusions of the *Link Report* were subsequently broadly demonstrated to be correct

chart below.

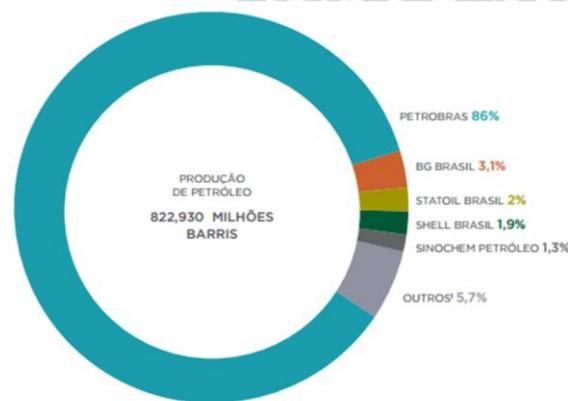
Figure 9. Top offshore fields in Brazil



Source: Anuário Estatístico Brasileiro do Petróleo, Gás Natural e Biocombustíveis 205 -Agência Nacional de Petróleo, Gás Natural e Biocombustíveis (ANP) p. 83 [complete]

In 1995, the Petrobras' oil monopoly was extinguished in the midst of a series of structural reforms that followed the stabilization of the Brazilian economy by the Real Plan (1994). However, Petrobras maintained total control of the domestic market as shown in the chart below.

Figure 10. Players of petroleum production in Brazil



Source: ANP/SDP

Petrobras became an open mixed capital company with majority (over 60%) government sharing and the participation of a large number of employees through a compulsory savings mechanism known as the *Fundo de Garantia por Tempo de Serviço* (FGTS). Petrobras also started in 1996 to trade American Depositary Receipts (ADRs) on the New



York Stock Exchange.

Technological leadership in oil extraction in ultra-deep water, the modernization of the company's corporate standpoint and the economic stability of the country allowed Petrobras to become a global corporation placed among the ten largest companies in the oil sector.

However, the use by PT's governments (2003-2016) of Petrobras as part of the scheme for partisan and personal gain led the company to a situation of economic and financial debacle transforming Petrobras into the most indebted company in the world. In fact, Petrobras is in the middle of a colossal corruption scandal of the PT governments.

From the admissibility of the impeachment of President Dilma Rousseff in May 2016, the acting president, Mr. Michel Temer, confirmed as Brazilian president by Congress on August, 31st 2016, shifted the entire economic team including Petrobras. In this case, President Temer indicated an experienced renowned Brazilian executive for Petrobras presidency. The new president of Petrobras, Mr. Pedro Parente, aims to assure to make Petrobras a great company again. For this, Mr. Parente is planning to dispose of assets - and outdated ideologies - useless for Petrobras, the most important Brazilian company.

2. Petroleum Industry Regulatory Framework in Brazil-

a. From the end of the state monopoly to the local content

In 1995, the complete state monopoly over oil and gas was terminated, by means of constitutional amendments⁶. The amendments allowed the state to authorize or give concessions to private individuals and Brazilian companies the right to develop the exploration, production, transportation, processing, import and export of oil and gas.

The background claim was that the country needed heavy investments in this industry and the state could not offer the necessary means in a technology-driven and capital intensive area. Petrobras needed not only to increase its production capacity, but also to invest in the exploration and production at the Campos Basin, in the State of Rio de Janeiro. It also wanted to invest in offshore areas in which the exploitation capacity was still an unknown potential.

⁵ PT- Partido dos Trabalhadores (Workers Party)

⁶ Constitutional amendments Nos. 5 and 9, both of 1995.



The enactment of Law No. 9,478, of 1997 changed the regulatory framework of oil and gas in the country. It regulated the opening of the sector to private investments and created a regulatory agency, called *Agência Nacional do Petróleo, Gás Natural e Biocombustíveis* - ANP.

In 1998, ANP created incentives for local entrepreneurs to provide services and goods to Petrobras, such as tax benefits, credit lines for investments and technology innovation and favorable conditions for import and export related activities.

The first round of concession bids began in 1999. Since the first round, a benefit to the competitors was assigned to those who could commit to secure higher supplier demands from the local industry to the exploitation and to the production development phases. There was no minimum amount of purchases to be made from the local industry, since it was a voluntary commitment. However, bidders who could abide to such commitment were granted up to a 15% increase in the overall score in the bids. This was the procedure until 2002.

In 2003, with PT in charge, the local content became mandatory, with a floor established by regulation, both in the exploitation and in the production development phases. Bidders could increase such floor at the moment of the bid.

From 2007 onwards, specifically from round 5 onwards, regulation required both a floor of mandatory purchases from local suppliers and a ceiling. The results of round 6 proved that the incentive worked out satisfactorily, since the local content increased 86%-89% compared to round 5.

In 2007, ANP issued *Resolução* No. 36, which created the so-called "handbook of local content". Such handbook contained the definitions, methods and criteria for the supply of goods and services by Brazilian nationals within the oil and gas industry. It created, for instance, ranges of minimum and maximum limits in items and sub-items to be purchased by the winning bidders. The methodology was far from simple⁷.

Due to its complexity, a whole system of certification ensued. Certification companies

⁷ FREIRE, I. J.. *Análise das Metodologias Utilizada para Cálculo de Conteúdo Local na Construção e Montagem de Empreendimentos no Setor de Petróleo e Gás*. Niterói, 2013. 201 p.

were accredited by Petrobras to verify the level of local content of goods and services according to the handbook.

Over the years and the rounds, the requirement was adopted as follows:

Figure 15. Local content – Exploration phase

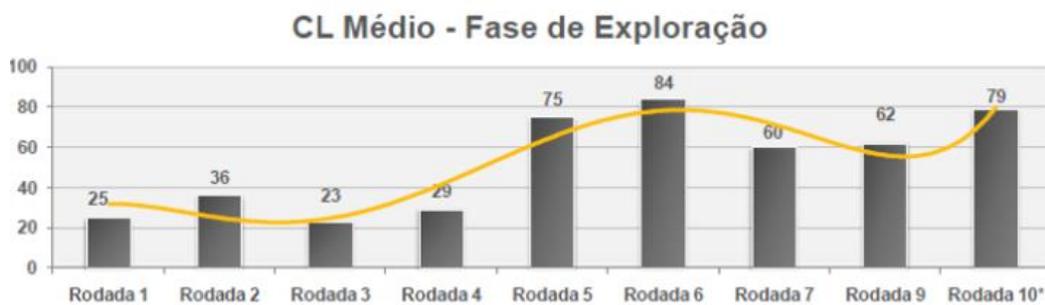
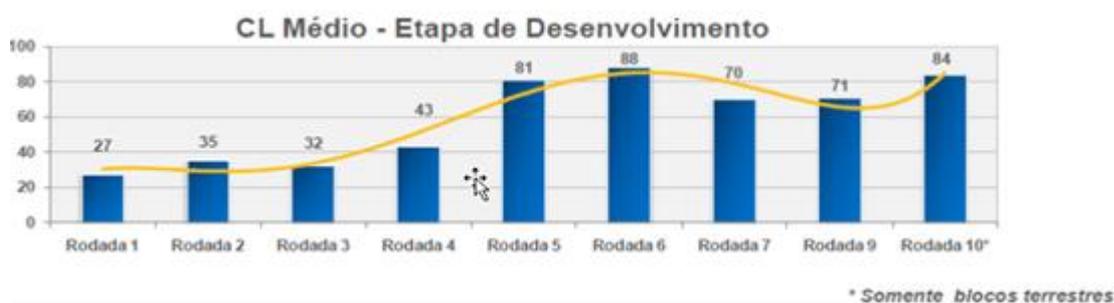


Figure 16. Local content – Production development phase



The local content requirement was subject to criticism. To some, it was actually a disincentive to competition, since it protected the local industry and created privileges based on criteria other than efficiency. Critics also claimed that the real beneficiaries were large companies, instead of small and medium ones, since only those could have the necessary conditions to be suppliers to the chain. An additional criticism was that it meant an incentive to the local industry but at the expense of time and costs⁸. Recently, the *Tribunal de Contas da União* (TCU) issued a harsher criticism: it stated that the local

⁸ See, among others, ALMEIDA, Raquel Filgueiras de. *Políticas de Conteúdo Local e Setor Para-Petroleiro: Uma Análise Comparativa entre Brasil e Noruega*. Tese (Mestrado em Planejamento Energético), Universidade do Rio de Janeiro, Rio de Janeiro, Abril de 2011. 150 p. and *Ensaio Crítico sobre a Natureza do Conteúdo Local Brasileiro: imperfeições no fomento à indústria local*, **Revista Brasileira de Direito do Petróleo e Gás**, v. 3, p. 48, 2012.



content policy was ideologically biased, harmful and was not sufficiently planned⁹. The current government of president Temer has disclosed its intent to change the local content policy.

The requirements of local content within the strict terms of the handbook¹⁰ represented significant barriers, on one side, and an undeniable incentive, on the other side, for the development of certain players of the national industry. As we will discuss below, it was also a fertile ground, as alleged by the Federal Prosecutors, for systemic corruption within the oil exploitation chain, by means of the contractual arrangement, as an example, of Sete Brasil Company, to be discussed below.

b. Ultra-deep water structure

The discovery of the ultra-deep water oil and gas reserves provoked a change in the government willingness to deal with the industry. A new regulatory framework was enacted, by means of several pieces of legislation¹¹, to include two other contractual types of oil and gas exploration, aside from the already known concession agreements: the production sharing and the onerous cession.

The model of concession, in which the winning company would bear all the risk and great part of the profits, was limited to the areas which were object of bids before 2010.

Strategic areas and all the ultra-deep water areas would, from 2010 onwards, be subject to the production sharing and the onerous cession. In both models, Petrobras would have a major role.

In the production sharing model, Petrobras was the legally assigned operator (through a subsidiary named *Empresa Brasileira de Administração de Petróleo e Gás Natural S.A – Pré-Sal Petróleo S.A – PPSA*), with a participation of at least 30% in the venture. In this contractual model, the winning company would bear all the exploratory and production risks and would receive on its turn part of the production. The government would have

⁹ CAMAROTTO, Murillo; JUBÉ, Andrea. *Conteúdo nacional é danoso, conclui TCU*. <http://www.valor.com.br/brasil/4614733/conteudo-nacional-e-danoso-conclui-tcu>. Access on June 2016.

¹⁰ Resolução ANP No. 36, of 2007, was later replaced by Resolução ANP No. 19, of 2013, amended by Resoluções ANP No. 12 and 26, of 2016.

¹¹ Laws No. 12.276/10, 12.304/10 and 12.351/10.



zero risk and part of production.

In the onerous cession model, Petrobras would be sole operator and investor, but its right would be limited to 5 billion barrels.

3. Petrobras and Systemic Corruption

Differently to abusing sporadic chances, the systemic corruption is defined as a unified and primary component of the state and the government. "Systemic corruption is not a special category of corrupt practice, but rather a situation in which the major institutions and processes of the state are routinely dominated and used by corrupt individuals and groups, and in which most people have no alternatives to dealing with corrupt officials."¹² In the Brazilian case under the PT governments it is possible to say that corruption was a genuine public policy.

a. Brazilian Public Federal Ministry and the Operation Car Wash

[to be completed]

b. Case Company *Sete Brasil* (Seven Brazil Company)

i. Company's Incorporation

Sete Brasil Participações (Sete Brasil) was established in late 2010 as a private company having as shareholders (a) the pension funds of large state-owned enterprises, (b) large Brazilian banks, (c) large construction and contractor companies and (d) Petrobras. Sete Brasil is entitled, in its incorporation documents, as a company specialized in asset portfolio management aimed at oil and gas drilling operations in the Brazilian offshore area, especially those related to the pre-salt oil extraction (ultra-deep waters).

According to the company, the business model adopted is associated to strategic

¹² Anti-corruption resource center, <http://www.u4.no/glossary/>, access on June 2016.



partnerships with specialized and experienced companies in producing and operating drilling mechanisms, with the purpose to develop sustainably local firms (shipyards) in the business operated by the Company. These operations included the drill mechanisms of submersibles; jack-ups drill ships and semisubmersibles.

One of the most important arguments to justify Sete Brasil creation was based on the idea of developing a national technology, to enable the formation of skilled workers and to improve the local labor market. It could make sense, since Petrobras managed to change its in-company, technological capability from a copied technology-user to a leading player in the innovation frontier of ultra-deep water leadership.

Since the beginning of its constitution, Sete Brasil was sure it would depend on the drilling service contracts from Petrobras. As the new company had no knowledge either on the construction or on the operation of drilling mechanisms, its role would be as an intermediary between Petrobras and the suppliers and operators of the drilling process. Thus, both the construction and subsequent operation of the drill mechanisms were outsourced to specialized companies. In this sense, Sete Brasil duty was simply to manage these contracts.

In February 2012, just over one year after its creation, the company had won the bid to supply 21 oilrigs to Petrobras through a chartering contract. The value of these contracts was US\$ 76 billion. In total, the company had received Petrobras orders for 29 fifteen-year chartering rigs contracts (backlog) accounting for more than US \$ 89 billion in revenue. These fifteen-year contracts also had a clause for renewal, ensuring the certainty of future revenue generation for the company.

According to the business model adopted, Sete Brasil would contract the drill mechanisms with the shipyards and associate with operators to offer the complete package to Petrobras. The shipyards would be the suppliers of the drill mechanisms and Sete Brasil, in partnership with an operator, would be the owner of the equipment.

Sete Brasil signed contracts with different shipyards in Brazil for the construction of the



submersibles, jack-ups, drill ships and semisubmersibles:

- Seven contracts with the Atlântico Sul Shipyard (EAS);
- Six contracts with BrasFels Shipyard;
- Six contracts with the Shipyard Enseada Industria Naval (EEP);
- Seven contracts with Jurong Aracruz Shipyard (EJA);
- Three contracts with the Rio Grande Shipyard (ERG 2).

The accredited operators were some Brazilian companies such as Odebrecht Oil and Gas, Queiroz Galvão Oil and Gas, Petroserv, Etesco, and some foreign corporations such as Transocean Offshore Diamond and Seadrill.

It is important to mention that the main Brazilian shipyards involved in contracts have as partners the largest construction and contractor companies operating in the country. For example, the Atlântico Sul Shipyard has as partners the contractors Camargo Correa and Queiroz Galvão; the shipyard Enseada Indústria Naval has as partners the contractors Odebrecht, OAS and UTC; Rio Grande shipyard has as partner the contractor Engevix.

As can be seen, the large Brazilian construction and contractor companies were crucial to enable the operation of Sete Brasil. These large companies had a dual role: they were not only partners in the shipyards companies but also in the drill operation companies.

The corporate structure of Sete Brasil has the following scheme:

Sete Brasil Participações S.A. is owned by an investment fund, called “*FIP Sondas*”, which owns a 95% stake, and by Petrobras, which owns a 5% direct stake.

In analyzing the corporate structure of Sete Brasil, it is possible to find both private and public institutions as stockholders of the company. In fact, the investment fund FIP Sondas is composed by quota holders from private companies (such as investment funds and banks) and public entities (such as Petrobrás and pension funds from state-owned enterprises). At the end, the capital structure of Sete Brasil is composed by roughly 53% of public funds and 47% of private funds. Without the participation of public companies (both direct and indirectly), probably Sete Brasil would not had been created. The private investors only became quota holders when they had the confirmation of the participation of the state-owned companies.

The table below shows the participation in the capital structure of Sete Brasil of each of the major stockholders: Petrobrás and its pension fund Petros have 26% of Sete Brasil capital, while two other state-owned companies pension funds (Funcef, from state-owned bank Caixa Economica Federal, and Previ, from the state-owned bank Banco do Brasil) have 19% of the company capital.

<u>Private institutions</u>	<u>%</u>	<u>Public institutions</u>	<u>%</u>
BTG Pactual	26.36	Petrobrás	9.37
Valia	2.38	Petros	16.63
Bradesco	3.04	Funcef	16.63
Santander	5.99	Previ	2.23
Luce	3.42	FI-FGTS	7.79
EIG	6.08		
Lakeshore	.10		
Total private	47.35	Total public	52.65

The arguments used to create the company Sete Brazil could be accepted without problems. In fact, it seemed to be a fabulous opportunity and a great initiative. The rich potential of the oil pre-salt reserves coupled with the development of Brazilian shipyards were much more than enough to generate a lot of additional income and thousands of new skilled jobs.



However, allegedly, the creation of Sete Brasil was just a plot developed by the then Government Party (PT) to expand the corruption scheme in the largest Brazilian company, Petrobras. The creation of Sete Brasil with the rationale of generating employment and developing domestic suppliers was, in fact, only a pretext for the establishment of an additional mechanism of embezzlement for the then ruling party.

In the scope of the corruption scandal at Petrobras, the Federal Public Ministry, which conducts Operation Car Wash, decided to include in its investigation Sete Brasil.

It is clear that it was not a mere coincidence the fact that Sete Brasil became a target for the Federal Public Ministry corruption task force.

Promiscuity between the construction & contractor enterprises and Sete Brasil is based on the fact that this company (whose some shareholders are the same construction & contractor enterprises), was bidding for construction and operation of drill mechanisms by shipyards and firms which also had as shareholders the same construction & contractor corporations. In short, supplier firms and operators in the Petrobras drilling process "coincidentally" have as shareholders some of the same construction & contractor enterprises. As a result, Petrobras contracted throughout Sete Brasil twenty nine (29) oilrigs, of which thirteen (13) to be operated by subsidiaries of construction & contractor corporations: five (5) by Odebrecht Oil and Gas; five (5) by Etesco / OAS; and three (3) by Queiroz Galvão Oil.

According to the task force of the Federal Public Ministry, Sete Brasil was created from a project conceived and coordinated by two Petrobras executives (Pedro Barusco and João Carlos Ferraz) and the then PT treasurer (João Vaccari). In accordance to Car Wash Operation, the bribe was set at 0.9% of the amount of Petrobras contracts intermediated by Sete Brasil.

The bribe was payed to Petrobras Engineering Chief (Renato Duque) who had the duty to transfer the equivalent of 2/3 of the bribe amount to the PT treasurer. The remaining 1/3 was divided into 2 parts: Renato Duque pocketed 50% and the other 50% was split among Barusco, Ferraz and Eduardo Musa (former manager of Petrobras).

By analyzing the contracts signed between Sete Brasil and the shipyards, the task force



identified the functioning of the corruption scheme. Prices presented for the drilling process bids were pre-set with participants. As a result, prices were inflated between 11% and 24% when compared to the offerings of winning bidders in similar auctions. Lobbyists linked to the suppliers diverted to PT money originated from these inflated prices. At the beginning of this investigation, bribes were associated to PT's campaign expenses to the Presidency but it was revealed that the corruption scheme was systemic and spread in many different purposes. Some of these bribes were sent irregularly to bank accounts abroad. The Car Wash Operation showed that Odebrecht bought an overseas bank just to operate this corruption scheme.

In March 2016, through a letter sent to the Sete Brazil board, João Carlos Ferraz (who became Sete Brasil CEO) admitted receiving from the shipyards about US\$ 2 million in bribes, due to the oilrigs pre-salt contracts. Until then, only Pedro Barusco in his plea bargaining to the Car Wash task force had spoken in receiving sweeteners in Sete Brasil. According to Barusco, both he and Ferraz and Musa had agreed to receive bribes from the EAS,, Brasfels, Jurong, Enseada and Rio Grande shipyards.

The quantification of bribes received through Sete Brazil is not an easy task. The budget for constructing 28 oilrigs was estimated between US\$ 22 billion and US\$ 25 billion, according to the company. Once completed, the oilrigs would be leased to Petrobras with an average term of 15 years, renewable. Sete Brazil estimated that bribes reached the sum of US\$ 224 million, which, coincidentally or not, represent approximately 1% of the budgeted amount for the construction of oilrigs.

At the time Barusco made his plea-bargaining (November/December 2014), he agreed to return to the country an amount equivalent to US\$ 100 million. It is reasonable to assume that the amounts involved may have been much higher than what was actually reported. This figure can help give the scale of the corruption scheme led by PT. After all, Barusco was not the most important piece of the corruption scheme developed in Petrobras and companies associated with it.

The corruption scandal at Petrobras and associated companies enhanced by the oil sector crisis due to the sharp price decline in 2015 in the international market led Sete Brasil to request for judicial settlement in late April 2016.



The total debt of Sete Brasil was estimated at US\$ 5 billion, and Brazil's Federal Government is the largest creditor. Through public banks and government funds, the Federal Government carries about 2/3 of that debt. This value is concentrated in Banco do Brasil (US\$ 1 billion); Guarantee Fund of the Naval Construction (US\$1.3 billion); FI / FGTS (US \$ 0.7 billion); and Caixa Econômica Federal (US \$ 0.5 billion).

In addition to the huge amount of bribes paid, the effect of corruption at Petrobras and Sete Brasil could be also measured by the direct consequences in the Brazilian oil and naval industry: the shipyards constructions of the oilrigs have practically ceased and thousands of employees have lost their jobs.

In fact, the interruption of contracts by Sete Brasil had a devastating effect on the Brazilian naval industry. According to the Union of Shipbuilding Industry, the number of direct jobs in the sector, which had reached more than 82,000 in 2014, was reduced to about 50,000 in the first quarter of 2016. This is the tragic side of the corruption, recession and all sorts of degeneracies that have taken over Brazil in recent years. The economic tragedy is the result of a disastrous populist economic policy adopted by PT governments.

The table below shows the level of Sete Brasil accomplishment of the chartering contracted by Petrobras in April 2016.



Shipyard	Drill	Accomplishment (%) (April 16)
Brasfels	Urca	89,96
	Frade	69,09
	Bracuhy	39,81
	Portogalo	17,34
	Mangaratiba	4,78
Jurong	Arpoador	84,76
	Guarapari	74,21
	Camburi	60,33
	Itaoca	30,87
Enseada	Ondina	71,27
	Pituba	27,45
Rio Grande	Cassino	52,41
	Curumim	13,92
EAS	Copacabana	49,24
	Crumari	38,11
	Ipanema	23,38
	Leblon	13,98

Source:

It is plausible to believe that the resumption of economic growth, with its specific reflex in the oil and navy industry, can only be felt in the medium term after overcoming the political crisis in the country. In this sense, the removal of the President Dilma Rousseff (August 2016) was a first step to make possible Brazil to return to the correct track. Additionally, a favorable outcome of the Car Wash Operation reducing the perverse effect of corruption - with the possible punishment of those involved and the recovery of the misappropriated values- will greatly help the sector's recovery. Even though the sector's recovery depends on the regaining of international oil prices, which is still an uncertainty in the current situation, the domestic problems related to corruption had the lead role in the current crisis of Petrobras and associated companies as Sete Brasil.





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