

# President promises transparency and asks for cooperation



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Pedro Pullen Parente needs no introduction. In the public sector alone, the engineer who graduated from Universidade de Brasília has a career of more than three decades. He was president of Serpro, Minister of Planning, Head of the Civil Household of the Presidency and Minister of Mines and Energy, to give just a few examples. In his most emblematic position in government, in 2002, he received the title of the “blackout minister”. Brazil was going through a severe electric energy supply and distribution crisis and the President of the Republic at the time, Fernando Henrique Cardoso, gave him the mission to face the issue that was afflicting most of the country. His experience in solving national crisis made him one of the most qualified people to take on the main position as chair of Petrobras. Since March 2016, Parente presides over the company and looks for means to reduce the debts that, comparatively, represent 70% of the total debt of all Brazilian states. It is a very complicated task, but the oil company is not unknown to Parente. He was president of the Petrobras Board of Administration. In his opinion, the state-owned company was the main victim of the irregularities that became public with the Lava Jato operation and did not obtain benefits with corruption. In this conversation with the **TCU Journal**, Parente talks about the challenges and priorities as head of Petrobras. One of them is to reduce costs and improve the relationship with several institutions that are regulators, supervisors or partners in the energy sector. For example, he believes that the divergences with the Federal Court of Accounts are in the past and that the current understanding will enable the company to advance the divestiture program and focus on oil and gas processing.

**On the Petrobras webpage, there is the hashtag #DaquiPraFrente (FromHereOn) and the sentence “Sometimes, to move forward we must seek new paths.” What are the company’s new paths?**

The synthesis of all of Petrobras’ problems can be symbolized or represented by the size of the debt. The company has a debt that is larger than that of all Brazilian states together, except São Paulo. If we include São Paulo in this equation, we arrive at 70% of the total debt of all the states – which is a problem we need to face. Jim Collins, a North American author, wrote a very interesting book called *Good to great*, showing how an institution can evolve from “good” to “great” and “excellent”. The author studied several companies that actually made this transition and one of his conclusions was that these companies, in general, did what he calls “*face the brutal fact*”, that is, faced reality instead of procrastinating.

When faced with such a large debt, it makes no sense to believe that the National Treasury will make a contribution just because it is the main shareholder of the company. This problem was created within the company, although not by the company. The company was a victim but we have to solve this. If we do not change the way we do things, the results will always be the same. Doing something differently means, for example, to have the courage that we had to state, in our strategic planning, what we will and will not do in a clear and transparent manner. We are leaving aside petroche-

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micals and renewable fuel. Let us focus. Focus is an important word: let us focus on oil and gas, which is what the company can do.

**How can the Federal Court of Accounts (TCU) help Petrobras in this difficult moment?**

TCU approved a new system to carry out our divestitures. This was an important step for Petrobras. Although we used methods that we considered appropriate and that aimed at the best result possible, we needed to be frank and recognize that TCU had divergences regarding the system employed by us. Let us say that there is a historical dissension, a non-conformity on the part of the Court with relation to the possibility of Petrobras having a special regime, which is established by a decree whose source is an article of the new Oil Law. TCU never settled for that.

This impasse resulted in a series of writs of mandamus before the Federal Supreme Court (STF). However, we had long technical discussions with TCU and, from that moment on, there was great cooperation and understanding from each party. At the end, we reached an understanding that allows us to carry out the divestiture program with the assurance that this system, now approved, will not be questioned. This is very important for any public manager.

**In 2001, when the country faced the “blackout”, the then president Fernando Henrique Cardoso appointed you to manage the Chamber of Energy Management Crisis. In your opinion, as head of Petrobras, are you currently also managing a crisis? Which of them is worse?**

The two crises are different in nature. The “blackout” had direct repercussion on the life of all families in the regions covered by the compulsory consumption reduction target, that is, Southeast, Midwest, North, and Northeast. The exception was the South region. Due to the dimension and scope of the decisions that we made and considering the impact on the lives of people, families, and companies, it is undeniable that, from this perspective, the 2001 and 2002 energy crisis was more severe than what happened in Petrobras. On the other hand, the context that involves Petrobras’ situation is also very grave. We must examine the situation always taking into consideration that the company was a victim, since it did not receive any kind of benefit from what oc-

curred there. It was a victim of a gang that brought together a few of its executives – a minority of employees, companies, contractors and some bad politicians – who, in this collusion, obtained benefits for themselves but never for Petrobras.

The repercussion of these facts that occurred in the company raises important issues that do not stop with judgement of those involved, but tend to bring changes. It seems evident to me that the current political system does not cater to the interests of Brazil. In this specific sense, this crisis is more severe than that of 2002, but this part is not under my responsibility. It is the responsibility of prosecutors, of the Federal Police and of justice, who have been exemplary in investigating the facts, prosecuting and punishing all whomever they are, regardless of their social, economic or political position. I consider this a huge advance for the institutions of our country.

**Your résumé shows that you have presided over the Petrobras Board of Administration. In your opinion, was it possible to detect that something wrong was going on in one of the largest companies in the country?**

In first place, we need to recover the testimonies of the informers who said they did everything outside the company, did not use the institutional email system nor telephone, and made the deals outside of Petrobras. From a formal point of view, there were no questions beyond those normally raised regarding performance of any state-owned company. We can ask ourselves

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whether it would be possible to improve the company's internal control system; after all, improvement is always possible. On the other hand, the inescapable truth is that certain frauds or problems are only detected by instruments that the companies generally do not have. That is, wiretapping and breach of bank and tax secrecy. Thus, it would have been necessary to have a set of indications that could be confirmed by evidence found within the company itself.

Based on this, it would have been possible to demand that the judiciary begin investigations. In my previous period at Petrobras, when Philippe Reichstul and Francisco Gros were presidents, internal control was very strong, there were business units and certain procedures, but I cannot say if there were changes that weakened these controls. However, we need to acknowledge that certain

frauds can only be discovered by investigative methods to which we do not have access. That is why it is important to have a completely independent denunciation channel so anyone who knows something can feel safe to denounce.

**What do you consider your greatest challenge as president of Petrobras?**

I would say that today we have two main challenges: a concentrated one and one that is diffuse. The first concerns the implementation of our action plan, whose objective is to reduce the size of the debt. This challenge has five pillars and two metrics, a safety and a financial one. With the safety metric and the indicator called Rate of Registrable Accidents (*Taxa de*

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Acidentes Registráveis-TAR), we intend to reduce the number of accidents per one million hours worked. Our pillar for this metric is called “commitment with life”. The company’s debt metric takes into consideration an indicator that is very common in the private sector, which is comparison of the size of the debt with its operating performance: EBITDA (earnings before interest, taxes, depreciation and amortization). A company is healthy when its annual operating performance or EBITDA is larger than the net debt (gross debt minus cash operation). That is, when its debt is not larger than its EBITDA multiplied by one. At the end of 2015, this indicator in Petrobras was 5.3. That is, the company’s debt was equal to 5.3 times its EBITDA. Whenever an institution’s debt begins to increase a lot compared to its operating performance, investors start to demand larger interest rates because the scenario indicates risk. That is why it was unacceptable for us to continue with such a large debt.

At this point, four more pillars come in: Prices Policy, we will reduce investments in financial resources and increase production even more. This will lead to an increase in our productivity. Regarding Costs Reduction, we have the incentivized and voluntary dismissal programs. The number of employees registered in these two programs equals 20% of all company employees. In addition, we will also reduce significantly the number of outsourced personnel, maybe the largest reduction ever recorded in Brazil. In our Partnership and Divestiture Program, we seek an

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additional total of U\$ 21 billion. I say additional because we made U\$ 13.8 billion between 2015 and 2016. This was the program approved by TCU, but it is being attacked by injunctions. Actually, it is a political party problem in Brazil. This program began when Graça Foster was president of Petrobras, but then it was under attack by unions. We are continuing the same program with the improvements determined by TCU, but, even so, we are the object of attacks. We are dealing with the problem, managing to overturn the injunctions, but this effort increases our workload a lot. Finally, we have the fifth pillar, which concerns Greater Productivity of Investments.

As for the diffuse challenges, we need to increase the level of coordination with the different institutions that act as regulators, supervisors or partners of the oil and gas sector. Petrobras almost has to beg to work. In addition, the company has problems with the National Petroleum Agency, faces labor claims that can cost R\$ 13 billion, tax claims that reach the billion mark and has to deal with environmental issues, etc. I do not want to generalize because there are different perceptions within the Brazilian Institute of Environment and Renewable Natural Resources (Ibama) regarding the work of Petrobras. However, there are sectors within Ibama that have great difficulty in helping our work. Beside the delay in issuing permits, there are legal disputes of several billion reais. We also have disputes with the state of Rio de Janeiro, who sets

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very high taxes. That is why I say that Petrobras needs to ask for favors in order to produce. Wherever the company turns, it finds difficulties.

**Returning to the issue of corruption: how can TCU help Petrobras prevent problems like this from occurring?**

In my view, the Court has been promoting important discussions on governance and improving the governance system is something that is quite necessary. In addition to the discussion regarding TCU jurisdiction over the accounts of the company, I believe if there was to be a dialogue between the Court and our Division of Conformity and Integrity to cross check our systems, among other measures, this would be very welcome help. However, I think we need to emphasize that one of the constitutional principles is efficiency. Today, taking Petrobras as an example, although this may be happening also in other institutions, the levels of control are better. Even so, the control bodies were incapable of stopping or preventing the things that happened. I have no doubt that we need to examine whether the constitutional principle of efficiency is being followed. The transparency and legality principles certainly are.

I think TCU has a fundamental role in the topic of efficiency. Nevertheless, what is this topic about? Efficiency means to deliver the highest possible result for the taxes paid by society. We must keep in mind that the National Treasury does not create money, that the government

*“ TCU has a fundamental role regarding efficiency, which is to deliver the highest possible result for the taxes paid by society. We must remember that the National Treasury does not create money, that the government does not create money. The resources invested come from taxpayers. ”*

does not create money. The resources invested come from taxpayers. Americans and British have the expression “value for money”, which we can interpret as “valuing your money, valuing the taxpayers money”. I am absolutely certain that the issue of efficiency, that is, the verifying results, needs to have higher priority in the oversight activities. Currently, such activities are still aimed at verifying compliance with the processes, that is, compliance with bureaucracy. I am not being critical, only realistic. The fact is that the huge bureaucracy in our country today did not prevent everything we saw from happening, right? It is also worth mentioning that, except for what is going on today in the Lava Jato operation, every time a problem occurs, instead of punishing those who were guilty, current practice was

to create a new control. In other words, the ones who caused the problem were not punished. Punishment was inflicted on the other managers because they had to comply with one more control, which was more costly and generated less efficient actions.

**In your opinion, which issue in the relationship between the TCU and Petrobras needs more attention?**

If you had asked me this one year ago, I would have said that the main point would be for Petrobras to be more transparent. However, this has changed. Especially because of the vision of our financial director. Petrobras opened all its information and placed it entirely at the disposal of TCU. Today, my answer is that we would like to see TCU acknowledge this gesture of ours because the company

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is still treated as an institution that is closed, arrogant, always ready to fight. Not only by TCU but also by other governmental bodies. However, that Petrobras no longer exists. We want to establish a relationship based on cooperation and trust, fully respecting the constitutional roles of each organization. Another issue I would like to insist on is that the way in which the TCU expresses its viewpoints shows that its presumption is not of innocence. I know that in the past Petrobras contributed very much to this perception and played a part in creating a scenario of conflict. However, all this needs to be reviewed.

**How can TCU and the Attorney General's Office (AGU) help Petrobras recover the amounts lost in the corruption scheme?**

I think there is an urgent need for an understanding between the State bodies such as AGU, TCU, the Prosecutor's Office, and the Office of the Comptroller General (CGU), regarding the leniency agreements. I would like to reiterate that there would only be investments in the country when we have a good environment, that is, when we encourage good companies to invest. Today, the scenario is one of complete uncertainty and it is not the role of Petrobras to lead this process. Our company is always willing to help and we call on all State bodies to arrive at an understanding in benefit of the growth of our country.

**Do the other areas of Petrobras understand and support the performance of the Governance Division?**

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Yes. Definitely. However, as often happens in this situation, the pendulum first went to one extreme to later release itself and go completely to the other. We need to work to bring the pendulum to the center, that is, everyone understands the relevance of conformity and integrity but we must be reasonable. Petrobras has some extremely lengthy processes. Sometimes, a simple purchase operation can take up to one year. However, the company recognizes the need for this work. This is undoubtable. Nevertheless, we need to find the point of balance.

**Concerning the company's management, how will Petrobras try to prevent political interferences that put in check good management and the search for better results?**

Petrobras is a joint-stock company. Therefore, whoever has the majority of the voting capital stocks has the power to decide the fate of the com-

pany. Thus, the answer to this question depends basically on the controlling shareholder. We have recent rules related to, let us say, the characteristics a person must have to be appointed to a position in the company or in the Board. These rules comprehend experience, knowledge and integrity. Recently, we sent a proposal to change our statute, which makes these requirements even more severe. However, it is important to remember that our decisions are up to the controlling shareholder and the fact that we have a profile for these positions does not mean that appointments cannot be political. The most relevant thing is to have the right people on board so that the company can be managed to fulfill its social objectives, which are to handle oil and gas exploitation, production and distribution in the country in a profitable manner. In order to achieve the objectives, the company cannot operate in an unprofitable way. This would be contrary to the determinations established because the company needs to ensure its future operating in a sustainable form.

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