



Historical change of Petrobras management culture - indications and chances for suppliers!

Writer

Frank P. Neubaus

Founder and director of iManagementBrazil Ltda., São Paulo, Rio de Janeiro - Brazil

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Preface

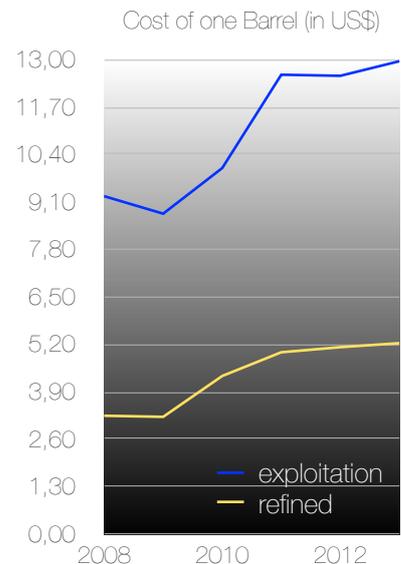
After decades of a paternalistic relationship between the Brazilian state owned petroleum company and its suppliers, the wind has changed since Mrs. Maria das Graças Silva Foster, became president in February 2012. The company stopped its generous advance payments and it is taking a tough stance during re-negotiation of prices, terms and dead lines. Meanwhile first suppliers went bankrupt or were obliged to submit themselves to an in-court recovery process in Brazil. iManagementBrazil is active in the oil and gas sector for several years, facing both, dramas and chances emerging with the new reality, together with our clients.

In order to understand the new wind blowing through the Rio de Janeiro HQ and all other establishments of Petrobras, it is good to know Mrs. Graças Foster's background: Mrs. Graças Foster hails from Caratinga, Minas Gerais, later Rio de Janeiro. She graduated in chemical engineering at the Universidade Federal Fluminense (UFF), State of Rio de Janeiro, and earned a master in fluid engineering and a post-graduation in nuclear engineering, both at the Universidade Federal de Rio de Janeiro. In 1978 she joined Petrobras as a trainee, followed by two years with Nuclebras and then returning to the national petroleum company. For a few years she was part of the board of directors of Petrobras and served as CEO of

Petrobras, the gas exploration company of the Brazilian energy giant. Between 2003 and 2005 she was an assistant to today's Brazilian President Dilma Rousseff at the Ministry of Mining and Energy. Her professional style is very hard working, demanding, dedicated and anxious. She supervises the principal projects personally. Mrs Graças Foster is able to make courageous decisions. Her way of decision-making is based on in depth, detailed knowledge, precise planning, simplifying the process and consequent close control of execution. Mrs Graças Foster's aim is to develop the company into one of the most productive and profitable oil companies in the world - a very long way to go. The Brazilian government controls Petrobras.

Petrobras fondly emphasize that they cultivate innovation with the creation of new technologies, operating with deep-water exploration, obtaining the largest number of patents in Brazil, that they created one of the largest R&D centres among all petroleum companies worldwide. The company presents one of the largest investment programs in the world of oil: US\$ 45 billion per year, during almost one decade. To accomplish that is the very challenging task for Mrs Graças Foster.

Today, one of the biggest problems is to make the new refinery in the State of Pernambuco profitable. Initially the operation was to start in 2011, now it is scheduled for the second half of 2014. The construction cost were estimated to be US\$ 2.3 billion, after the fifth revision of the budget, the total cost



is expected to come close to US\$ 20 billion. But the new refinery is not the only crux.

The planning and construction of new exploration platforms for the deep-water pre-salt exploration areas and the maintenance of existing platforms is somewhat delayed. Mrs Graças Forster blames own faults and those of subcontractors.

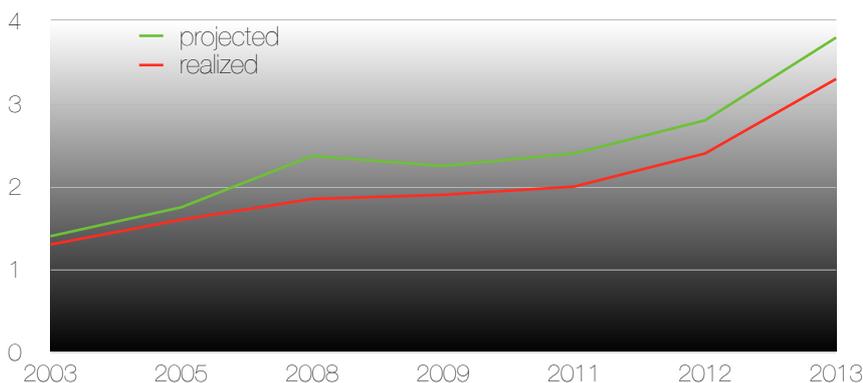
In the past some approved suppliers where offered a project and the lowest bidder got the contract. Unwritten understandings between suppliers and contract amendments inflated many a project.

Since February 2012 all pending projects have been revised and shortcomings detected. A prominent victim was the Premium Refinery in the State of Maranhão and Ceará. All plans were cancelled for the time being and will now be reconsidered with the budget 2014-2018.

How to describe the typical supplier of Petrobras in Brazil? A short X-ray shows that the average invoicing per year is Brazilian Reais 83 million; 85% are small or micro companies and 65% present an annual invoicing less than Brazilian Reais 25 million. The average headcount does not exceed 240 employees.

The situation for many of them is about to change and for some of them dramatically. The engineering company Tenace realized projects on behalf of Petrobras for almost 26 years. At the beginning of 2012 the company had a workforce of approx. 2.800 and 23 pending

Production targets are missed since one decade (in billion Barrels per day)



contracts with Petrobras. Problems started in 2010 with the extension of the refinery of Guamaré, Rio Grande do Norte.

A supplementary budget was not granted. The situation with Tenace culminated in a general walkout and subsequent bankruptcy. Other suppliers are rescued by the in-court supervised recovery act in Brazil.

iManagementBrazil, side by side with a specialized attorney office, is about to restructure suppliers of Petrobras in the States of Rio de Janeiro and São Paulo. Companies represented accumulated a debt of Brazilian Reais 185 million. It will take 24 months plus to restructure and adequate the companies to the new reality. After this period, the companies will be renewed and strong players in the market, regaining the ability to serve Petrobras.

Another change implemented by Petrobras, affecting the suppliers, is linked to the financing modus so far practiced by the oil giant. A signed contract considered a down payment of 40% of the overall contract value by Petrobras. Instead Petrobras replaced it by paying a 1% per month interest rate – which is below market conditions in Brazil. In 2012, after Mrs Graças Foster assumed office, the monthly interest rate was elevated to 2% with the objective to induce the suppliers to look for other financing sources and to further rationalize their operations. At the same time the Brazilian Development Bank (BNDES) opened up the sector for financing projects for the oil industry. If a

supplier wants to get access to the attractive financing schemes, the company needs a process of professionalization, including all sectors.

The situation is delicate because Petrobras is very dependent on the small suppliers. For developing the deep-water exploration areas of the pre-salt fields Petrobras needs technology leaders, too. These are hard to find in Brazil.

„The chance
knocks on your
door much more
than you think,
but usually no
one is at home.“

- WILL ROGERS -

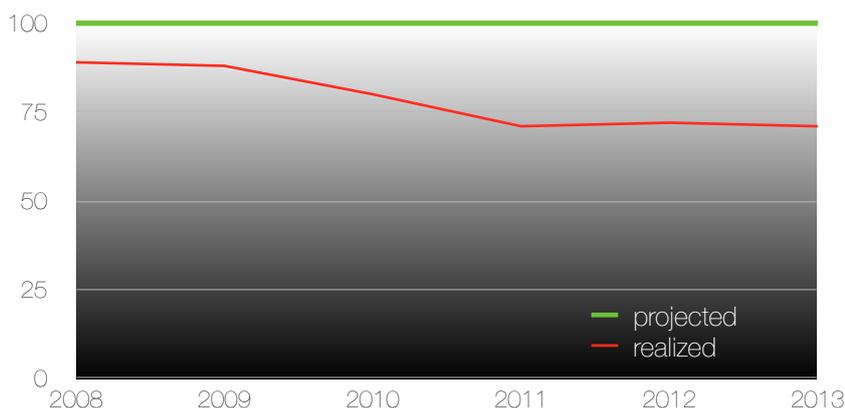
The present situation offers a very unique scenario for foreign investors in Brazil, even if it requires to take over a Brazilian company (registered with Petrobras) or to start with a green field project. In any case, the Brazilian Development Bank (BNDES) offers attractive conditions financing new ventures and accompanying them professionally. Furthermore, the culture and the ability to compromise professional project management, and the culture of reliable tender offers seem very

attractive to Petrobras. Never ever before were the gates of Petrobras as wide open for new suppliers.

iManagementBrazil is active in projects to buy out specialized *Brazilian* companies of the oil and gas sector. From the very outset most of our clients are keen to know about all opportunities offered in the Brazilian market, e.g., working together with the BNDES or APEX. We are sorting out all relevant questions on behalf of our client - from Petrobras supplier register process and commercial issues, as well as BNDES questions to the post-merger integration process.

iManagementBrazil keeps important contacts with the Brazilian Development Bank (BNDES) and the petroleum company Petrobras, mainly in Rio de Janeiro. We know numerous reliable suppliers active in the sector. Together with our competent network managers we are in a position to assist in almost all projects related to the oil and gas sector in Brazil. If your company projects to obtain its fair share of the industrial sector of oil and gas in Brazil it is vital to submit your organization to the process of being registered as a trustworthy supplier to Petrobras. The document required is the so-called CRCC document which will open reliable access to project tenders of the Brazilian petroleum giant. iManagementBrazil is experienced with the register process. We have project managers with the specialty of the CRCC process and good network within the Petrobras organization. (FTN)

Production efficiency declines since a couple of years in the Bacia de Campos field (in percentage)



iManagementBrazil Ltda.
São Paulo - Rio de Janeiro - Brazil
@mail: info@imanagementbrazil.com.br
www.imanagementbrazil.com.br

