

Copyright 2007. No quotation or citation without attribution

IR/PS CSR Case 05-02

Petrobras

By John Black

GRADUATE SCHOOL OF INTERNATIONAL RELATIONS AND PACIFIC STUDIES
UNIVERSITY OF CALIFORNIA, SAN DIEGO

Prepared for Professor Peter Gourevitch
Edited by Jennifer Cheng, MPIA 2008
Corporate Social Responsibility
Spring 2005

Abstract:

In looking at Petrobras, this paper attempts to shed light on the future trajectory of the company's corporate social responsibility (CSR) practices (in particular the *Fome Zero* program). In doing so, this paper seeks to better understand the motivating factors behind the Brazilian state-controlled oil company's recent decision to adopt social responsibility as an integral part of its mission and business strategy. After a careful analysis of the various internal and external elements, this study shows how the opening of the Brazilian oil market, Lula's presidential victory, as well as the global trend of more responsible business behavior have greatly influenced the managerial decision to pursue such an intense CSR strategy. These findings, however, do not undermine the importance of a socially and environmentally responsible leader carefully evaluating what is needed for the long-term success of Petrobras as well as the sustainable development of Brazil. This study points out significant evidence that the Petrobras' CSR practices are, in fact, aligned with its long-term business strategy.

Table of Contents

I. Introduction.....	3
II. Transformation of Brazil's Oil Sector.....	5
<i>A. Increased Need for Regulation</i>	<i>6</i>
III. Petrobras Company Background	7
<i>A. Government Control.....</i>	<i>7</i>
<i>B. Economic Highlights</i>	<i>9</i>
<i>C. Company's Strategic Plan.....</i>	<i>11</i>
IV. Fome Zero Program	13
<i>A. Petrobras Fome Zero Program</i>	<i>13</i>
<i>B. Some of the projects of Petrobras Fome Zero Program</i>	<i>14</i>
V. Long-term business strategy: Strengthening relationships with stakeholders.....	15
<i>A. Progefe (Supplier Management Program).....</i>	<i>15</i>
<i>B. Product and service differentiation</i>	<i>16</i>
<i>C. What is competition doing?</i>	<i>17</i>
VI. Monitoring	19
VII. Conclusion	20
VIII. Suggested Items for Further Research	22
XI. Discussion Questions.....	23
X. References.....	24

Copyright 2007. No quotation or citation without attribution

I. Introduction

It was not until 2000 that the term “social responsibility” was formally discussed within Petrobras. Despite this new dialogue, little was actually being done in practice. This changed, however, in 2003, when the state-controlled oil giant took a series of important steps to strategically integrate “social responsibility” into the company’s mission, vision, and business goals.

This transformation was not only happening within Petrobras. During the first years of the new millennium, many events placed the issue of social and environmental responsibility at the forefront of business and public policy in Brazil and throughout the world. In Brazil, for example, terms like *corporate citizenship*, *solidarity*, and *sustainable development* are omnipresent throughout society: on billboards, in magazines, and on the television. As the impetus to engage the private sector in the quest of developing more just and sustainable societies has intensified in recent years around the globe, Brazil finds itself at the vanguard of not only promoting but creating and implementing new and effective strategies.

The rhetoric of social change in Brazil and within Petrobras has increased dramatically over the past five years due, in large part, to two important events. The first was the official launching of the United Nations’ Global Compact in 2000. During the 1999 World Economic Forum in Davos, Switzerland, UN Secretary General Kofi Annan proposed the creation of an effort to create a sustainable and more inclusive global economy that would unite businesses and countries as well as non-governmental organizations, UN agencies, and other civil society groups. The second event was PT (Workers’ Party) candidate, Luiz Inácio “Lula” da Silva’s

Copyright 2007. No quotation or citation without attribution

victory in the 2002 presidential election. Lula had made Brazil's social ills the focal point of his campaign platform. And his program *Fome Zero* (Zero Hunger), which involves the public, private, and civil society sectors in a fight to eradicate misery and starvation in Brazil, has been the pillar of his administration's social agenda. Petrobras has been one of the most influential players in promoting and fostering the *Fome Zero* program.

This study looks at the ways in which Petrobras has developed and strengthened its CSR posture and actions over the past several years. It focuses on the company's involvement in the *Fome Zero* program specifically and asks the question: What factors have most motivated the company to adopt such a strong social policy? Petrobras' publications are full of information and images regarding the company's concern for the sustainable development of Brazil. That the company's leadership is motivated to invest in programs like *Fome Zero* for the sake of Brazil's sustainable development itself is undoubtedly true; yet there are other crucial factors that have contributed to Petrobras' current social policies.

This paper takes an analytical look at several of these likely factors in an attempt to better understand what exactly is driving Petrobras to adopt such socially responsible business practices. This analysis will provide a solid foundation to cast some predictions as to the long-term trajectory of the company's social involvement. By the end of this paper, it becomes clear that three factors, in particular, have weighed heavily on Petrobras' CSR commitment: 1) the opening of the Brazilian oil market, beginning in the late 1990s; 2) the 2002 presidential victory of the PT (Workers' Party) candidate, Luiz Inácio "Lula" da Silva; and 3) a new business rationale that considers a company's environmental and social performance as crucial for its

Copyright 2007. No quotation or citation without attribution

economic success. These determinants will be analyzed independently in the course of this paper; yet it will become clear how they reinforce one another and work together to drive Petrobras' CSR. These factors bring up some further interesting questions: Will *Fome Zero* continue even if Lula leaves office in 2006? Or is Petrobras' CSR merely a political instrument of the current administration? From the investigation, I find that the company has decided that its social policies will ultimately help it make more money from its oil operations over the long run. It appears that Petrobras' CSR is an integral component of its long-term business strategies and goals; and abandoning or decreasing its commitment would actually have an adverse effect on the company (in terms of image and reputation), especially in the context of its desire to continue business growth internationally.

II. Transformation of Brazil's Oil Sector

Petrobras' historical evolution goes hand in hand with Brazil's own petroleum history. On October 3, 1953, President Getúlio Vargas announced the creation of Petr6leo S.A. (Petrobras). Brazil believed that its natural resources were a natural treasure and belonged to the government. Furthermore, at the time, the country was engaged in an Import Substitution Industrialization (ISI) program and was looking for a way to decrease reliance on oil imports. As such, with Law 2.004, the government guaranteed Petrobras all of the necessary conditions for the nationalization and expansion of the oil industry in Brazil. The company was set up not only to manage the country's petroleum resources but also to implement and regulate national oil policy.

At the end of the 1990s, however, the Brazilian oil market underwent an important makeover. For nearly fifty years, Petrobras had maintained a monopoly on all upstream oil activities in the country. But in 1997, the Petroleum Law opened up the oil and gas sector to private industry

Copyright 2007. No quotation or citation without attribution

and regulated the break-up of Petrobras' monopoly. This law paved the way for the awarding of concessions for private oil exploration and production by the newly established National Petroleum Agency (ANP). The ANP took over the responsibilities of monitoring and regulating the national oil industry.

In 1999, the ANP began auctioning off oil exploration blocks, and for the first time since 1953, private companies could bid for drilling and exploration concessions. The most recent rounds of auctions were held in June 2000 and June 2002. Since the auctions, some 30 foreign firms have entered Brazil's upstream market. Beyond the ANP's auctioning off exploration and production rights to foreign companies, Petrobras itself has embarked on a number of joint-venture partnerships with these firms.

With this dramatic shift in the Brazilian oil landscape has come growing interest in exploration and production opportunities in the country. Brazil is on its way to becoming one of the main international poles for the exploration and production of petroleum. According to data supplied by Brazil's National Oil Industry Organization (ONIP): over the next ten years, the domestic petroleum industry is set to absorb a significant share of the sector's international investments, or roughly US\$ 100 billion (ONIP).

A. Increased Need for Regulation

The rising number of participants in the domestic market, however, makes the task of regulating and monitoring the business activities of these companies all the more difficult. This presents an enormous challenge for the Brazilian government to develop more effective ways to monitor and

Copyright 2007. No quotation or citation without attribution

regulate companies' environmental and social performance. With the entrance of these new multinational players, the government is searching for the development of solutions to regulate this industry and to create accountability, while at the same time, encouraging investment. And, at the same time, there is growing pressure from NGOs and other civil society groups for tighter scrutiny of the sector.

Could these developments be leading the Brazilian government to use Petrobras as a tool to promote responsible behavior through a market-driven type of regulation or self-monitoring? In other words, does the government see private sector initiatives as a more effective form of regulation than government legislation? Are Petrobras' strong social policies driving new entrants into the market to do the same? If Petrobras' responsible social and environmental practices can continue to coexist with (or even create) economic profitability, then the answer to this latter question is likely to be affirmative.

III. Petrobras Company Background

A. Government Control

Although it is publicly-traded both on the Bovespa (Stock Market of the State of São Paulo) and on the New York Stock Exchange, Petrobras is still controlled by the Brazilian government. Nearly one-third of the company's voting shares were sold in 2000, and there were subsequent sales in 2001 and 2002. The government, however, still holds 55.7% of Petrobras' common shares, and therefore of its voting capital, and 32.2% of the company's total capital stock. So what impact does this have on Petrobras?

Copyright 2007. No quotation or citation without attribution

The fact that the Brazilian government still controls a majority of Petrobras suggests that the government's agenda weighs heavily on the company's decisions. How can we observe this influence? Well, for one, the Brazilian President nominates the president of Petrobras. As such, there is the potential for a new company president every four years (coinciding with the presidential elections). When Luiz Inácio "Lula" da Silva came into office on January 1, 2003, José Eduardo Dutra replaced the Cardoso-appointed Francisco Gros.

Although many questioned the choice of someone with such little business experience, there was little surprise that the Lula administration chose someone from within the Workers' Party to head Petrobras. Dutra had been a PT Senator from the small northeastern state of Sergipe. By keeping the president of the oil giant within the party, it is likely that Dutra was chosen for his strong social ideals. In this way, was Dutra selected to help carry out the government's social agenda?

What impact does this have on Petrobras' CSR strategies? It could be said that a firm cannot be socially responsible unless its leaders are. And being a socially responsible manager is quite different from being a traditional business administrator. So, what are the principal characteristics of a socially responsible leader? In first place, the leader must keep in mind that his/her objective is to generate value in three dimensions: economic, social, and environmental. For this, it is essential to be conscious of everything. The socially responsible leader sees the firm from a holistic perspective and realizes that, more and more, businesses have a new social function. Therefore, managers must know the aggregated impact that the entire production chain generates in all of these spheres (Young).

Copyright 2007. No quotation or citation without attribution

The socially responsible leader also needs to understand hidden assets and liabilities, which are difficult to account for and measure. For example, how much is a healthy relationship with suppliers worth? And a portfolio of loyal clients? On the other hand, how much does it cost to pollute the environment and, consequently, become vulnerable to actions from civil society? And to do business in an area where 44% of the population lives below the poverty line? The close analysis and understanding of these types of factors is essential for someone interested in sustainability and in the long-term success of a company.

Through a quick analysis at Petrobras' recent performance, it appears that the company's leadership has done an excellent job of guiding the company's economic, social, and environmental spheres. According to Dutra: "The companies that participate in the [CSR] movement enhance their performance in whichever dimension they are being evaluated. In the last two years, the same period in which Petrobras decided to intensify its social actions, the company achieved its largest profits in history, adding strength to the idea that is possible to associate good economic results with socially responsible behavior."

B. Economic Highlights

Headquartered in Rio de Janeiro, Petrobras is an integrated company, specializing in the exploration, production, refining, selling, and transportation of oil, natural gas, and their byproducts in Brazil and abroad. Petrobras is the largest Brazilian company, the largest Latin American oil company, and the 15th largest oil company in the world. In fact, its market value recently surpassed that of Ford and General Motors combined. The oil giant's market value is US\$ 43.97 billion, while that of Ford and General Motors is US\$ 36.34 (Invertia).

Copyright 2007. No quotation or citation without attribution

Petrobras has 93 production platforms, 10 refineries, nearly 10,000 miles of pipeline, and 7,000 service stations. According to the company: “Wherever you go, Petrobras is there, contributing toward the development of Brazil.” The company leads the global oil sector in the development of the most advanced deepwater and ultra-deep water technologies. It was awarded the Offshore Technology Conference (OTC) Prize, the most important award in the sector, twice in 1992 and 2001.

In 2004, the company realized net sales of US\$ 30.8 billion, representing a 13% increase from 2003 and cumulative growth of 56.4% over the last two years. Correspondingly, net income in 2004 was US\$ 6 billion. These overall profits were bolstered by the company’s robust growth internationally. In 2003, the international area had net profits of US\$ 200 million, which was a 472% increase from the year prior. Currently, through its international business area, Petrobras is engaged in business activities in the following countries: Angola, Argentina, Bolivia, Colombia, Ecuador, Nigeria, Peru, the United States, and Venezuela.

The company is responsible for more than 5% of Brazil’s Gross Domestic Product and, in 2003, generated over US\$ 15 billion in taxes and royalties. Petrobras accounts for approximately 12% of total federal government revenue, and it is the country’s largest taxpayer. In 2003, the company received US\$ 9 million in government subsidies. From these figures, it seems clear that Petrobras gives much more to the country than it receives. Thinking from the lens of a very very classical economic perspective (i.e. Milton Friedman), Petrobras’ social responsibility

Copyright 2007. No quotation or citation without attribution

is already covered in the number of jobs it creates and the taxes it pays. Yet, Petrobras' investments in Brazil go far beyond taxes and employment.

C. Company's Strategic Plan

We have been focusing our efforts on integrating all of our production chain into the Global Compact commitments, the eight Millennium Goals, and President Lula's calling to combat hunger and misery. In 2004, the Petrobras Fome Zero Program completed its first year, supporting hundreds of projects which share the common thread of searching for the sustainability of the communities involved. We understand that the response to social demands is more effective when the technical competencies and financial resources of companies are synergized with government actions. (José Eduardo Dutra)

Under Dutra's leadership, Petrobras has decided to become a reference with regards to the highest national and international standards of environmental and social responsibility. In 2004, the company strengthened its socially and environmentally responsible posture not only through the improvement of its operations and its relationships with its stakeholders, but also through the financing of more than a thousand projects in the social, environmental, and cultural areas. In 2004, Petrobras invested more money in Brazilian society than any other company – a total of R\$ 350 million. Of this total, R\$ 113 million went to social projects, R\$ 146 million to cultural projects, R\$ 52 million to sporting projects, R\$ 21 million to environmental projects, and R\$ 16 million as donations.

What is surprising about these numbers is the large amounts that went to social and cultural projects compared to environmental projects. It would seem that environmental projects would be a more logical fit for an oil company, as its business activities have the most potential impact

Copyright 2007. No quotation or citation without attribution

on the environment. Investing in an environmental program or project would appear to be a logical response to an oil spill or some other ecological disaster caused by the company. Undoubtedly, these investment selections have been made strategically. Is there more to be gained in terms of brand and image by promoting social and cultural activities? This is not to say that Petrobras invests solely to reap the benefits of marketing, but rather that if it can invest in certain areas and gain an economic benefit at the same time, all the better. This is an intelligent CSR strategy that will allow the company to remain involved in the sustainable development of Brazil while remaining profitable (this will allow the company to continue its social investments).

This reinforced attitude has gone along with a continual transformation in the way that Petrobras approaches CSR. Over the last several years, the company has moved from being merely a project financier to a leader in the development and implementation of social programs.

As shown above, over the past two years, Petrobras has worked to formally and structurally align its social actions with both the UN Global Compact and the federal program Fome Zero. It strategically formalized these commitments through the revision of the company's 2015 Strategic Plan, approved last May. The Board of Directors decided to incorporate the concepts of social and environmental responsibility into the mission and vision of Petrobras and to extend these principles and values into all of the countries where it conducts business.

Mission: To operate in a safe and profitable manner in the oil, gas, and energy industry in Brazil and abroad, with social and environmental responsibility, providing products and services that meet clients' needs and contribute to the development of Brazil and the countries in which it operates.

Copyright 2007. No quotation or citation without attribution

Vision: Petrobras will be an integrated energy company with a strong presence in the international market and as a leading force in Latin America, focusing on profitability and social and environmental responsibility.

IV. Fome Zero Program

We are going to create the conditions so that all the people in our country can eat decently three times a day, everyday, without needing donations from anyone. Brazil cannot continue with such inequality. We must defeat hunger, misery, and social exclusion. The aim of our battle is not to kill anyone – it is to save lives. (Lula)

For the first time in Brazil's history, a government has placed the issue of hunger as a priority on the agenda. *Fome Zero* is a public policy that aims to eradicate hunger, misery, and social exclusion in Brazil. It is a public policy because it symbolizes the federal government's decision to frame problem of hunger as a central national issue rather than as an individual fatality. *Fome Zero* is a public policy also because it involves the efforts of all segments of Brazilian society – government, business, and civil.

Rather than merely assisting the needy in Brazil, *Fome Zero's* overarching goal is social inclusion, through universalizing citizen's rights. These rights begin with the basic social rights (access to food, health, education, social security, and job security). The immediate initiatives, comprised of structural actions connected to health, education, and professional training, seek to break the vicious cycle of misery and of socially and economically emancipating the some 11.4 million families that do not have enough to eat on a daily basis.

A. Petrobras Fome Zero Program

Copyright 2007. No quotation or citation without attribution

Petrobras has adopted the fight against exclusion and eradication of hunger in Brazil as the primary focus of its CSR agenda. A Management Committee was set up, comprised of representatives from the company's various business areas, to run the *Petrobras Fome Zero Program*. This program was officially launched halfway through Lula's first year in office, on September 1, 2003.

The program's four objectives were defined:

1. To stimulate social involvement and shared responsibility, so as to ensure autonomy and sustainability as a result of its activities;
2. To carry out strategic, systematic, and multi-institutional actions, encouraging the participation of Petrobras' stakeholders in the Fome Zero program;
3. To contribute to the organization of civil society, building relationships based on solidarity and respect for diversity;
4. To reaffirm Petrobras' historical commitment of participating in the major national challenges.

The company set a new performance benchmark in the area of social responsibility, agreeing to invest R\$ 303 million by the end of 2006 in actions to strengthen public policies against poverty and starvation. Many actions are being implemented throughout Brazil, with direct participation of the communities, contributing towards a better quality of life for the Brazilian population.

Through a public selection process, the company chooses projects that are aligned with *Fome Zero's* activities, priority being given to education and professional training, employment and income, guaranteed rights for youth, and social and volunteer projects. The company's projects encompass a wide range of issues.

B. Some of the projects of Petrobras Fome Zero Program

Copyright 2007. No quotation or citation without attribution

- *Agricultura Familiar (Family Farming)* is a program to encourage farming in settlements formed as part of the government's agrarian reform, in cooperatives, and in other rural communities. Much of the groundwork has begun on the Palheiros III farming project, in Upanema, Rio Grande do Norte. The Agrovida Project has also got under way in Alterosa, Minas Gerais. Carried out in partnership with the local municipal government, the project involves 120 low-income families who are growing rice for the 2004 harvest. The goal is to stimulate agricultural production, processing, and sales; and it is expected to impact 10,000 people by the end of 2006.
- *Molhar a Terra (Irrigate the Soil)* aims to restore hundreds of wells in the semi-arid northeastern regions of Brazil in order to provide water for human, animal, and agricultural use. Water, empowerment, and agriculture are the three elements underpinning the project, which counts on the collaboration of various organs, public companies, and social entities.
- *Mova-Brasil (Move-Brazil)* is a joint effort involving Petrobras, the Paulo Freire Institute and the National Oil Workers' Federation (FUP) – to teach literacy to young people and adults in regions where illiteracy is most prevalent. A total of 547 groups have already been set up and 600 literacy instructors have been accredited to attend some 15,000 candidates. The goal is to have 1,600 accredited instructors and bring literacy to 40,000 young people and adults by the end of 2006.

V. Long-term business strategy: Strengthening relationships with stakeholders

A. Progefe (Supplier Management Program)

In 2003, the engineering department instituted the Program for Organizing Suppliers (Progefe), with the aim of evaluating its partners' social performance indicators and stimulating their involvement in the projects selected by the *Petrobras Fome Zero Program*. The objective of the Engineering Suppliers Management Program (Progefe) is to create an information system that allows Petrobras to evaluate and encourage the socially responsible management among its suppliers. This program seeks to make integrated, current, and credible information regarding suppliers available. In this way, the more than 2,500 firms that supply products or services to Petrobras are analyzed from the lens of their performance in the social, environmental, worker

Copyright 2007. No quotation or citation without attribution

safety, and workers' health areas (this is beyond the more traditional technical part they are evaluated on).

Petrobras is taking advantage of its size and power in the Brazilian market to transform the way in which companies do business. Again, this is perhaps also a instrument of the Brazilian government to change the business landscape in Brazil and to promote the idea of sustainable development and social responsibility. It would be interesting to see whether or not there has actually been a change in the way the company's suppliers behave. It is likely still too early in Progefe's life to see concrete changes as of yet. The important thing though it that Petrobras is creating a new paradigm, especially for big businesses who have tremendous leverage with their suppliers, in which companies work together and monitor each other.

B. Product and service differentiation

In its 2015 Strategic Plan, Petrobras approved the management of its brands as strategic assets, recognizing that they have enormous financial value. The objective of the initiative is to differentiate its products and services within the diverse markets, adding value to business and giving greater potential to results. This policy takes on significant importance in the face of international expansion, which brings greater visibility but also scrutiny to the Petrobras brand.

Petrobras has a system in place to research, evaluate and manage client and other stakeholders' perceptions of the brand. The resulting information from studies conducted by Petrobras are consolidated into the Corporate Image Monitoring System (Sísmico), which serves as a managerial tool regarding the company's reputation. Through Sísmico, management can

Copyright 2007. No quotation or citation without attribution

accompany the evolution of the Petrobras image and make adjustments not only to its policies and communication actions, but more importantly, to its management practice in diverse areas. Petrobras management is adapting to the changing business environment not only domestically but internationally.

At least within Brazil, the company has the benefit of being the dominant brand in the market for such a long period of time. This could, however, be a vulnerability to the company if its image were to deteriorate in the face of some corporate scandal, ecological disaster, or marked decrease in its social investments. Since Brazilians are accustomed to seeing Petrobras so active in the social and cultural areas of the country, they will undoubtedly continue to expect this type of responsible performance from the company.

C. What is competition doing?

A pertinent question, then, would be to ask whether or not Petrobras' behavior is having any impact on the behavior of the new entrants into the domestic oil market. The impediments to a clear analysis of this question are based on the fact that the opening of the Brazilian market is relatively recent. The first round of auctioning off blocks was in 1999. Many of the foreign firms' business activities are still relatively small, and many of their activities are being done in partnership with Petrobras. This is partially because much of the oil lies off the Brazilian coast in deep waters, and Petrobras is the world leader in deep water oil exploration. Furthermore, it is important to note that Petrobras still controls a large share of the Brazilian market. It is responsible for supplying more than 90% of the Brazilian market of oil products (CENPES).

Copyright 2007. No quotation or citation without attribution

Glancing at the any of the key oil companies' websites, however, one sees many of the same buzz words found in the Petrobras site: *social and environmental responsibility* and *sustainability*. However, one main difference between Petrobras and its competitors (Shell, Exxon Mobil, Chevron Texaco, and BP have the most prominent operations in Brazil) appears to be that their CSR is less aligned with their overall business strategies. The idea of CSR is a separate idea or theme within the website. This is contrary to Petrobras, where CSR is a vital part of the company's mission, vision, values, and business operations.

In his presentation at the National Conference – Business and Social Responsibility in São Paulo, Brazil, Simon Zadek (CEO of AccountAbility), discussed how corporate responsibility is being aligned to strategies of business and national competitiveness. He categorizes companies with CSR strategies into three distinct groups. A first generation company is one where they have a lot of things to say about business as usual and then a little side note that says: “corporate social responsibility” – an extra piece added on to the website because of external pressure for example.

Then there is a second generation company, where at the strategic level of the business, the teams are beginning to understand not only how to the social bit, but where that bit truly fits in to the rest of the business: products, process innovation, new ways of thinking about marketing and distribution channels, the linkage, the drivers, the enablers that connect social responsibility with the way of doing business. And then finally, there is the third generation company, where corporate responsibility is so embedded in the way it does business that it is once again invisible as a distinct element of its strategy.

Copyright 2007. No quotation or citation without attribution

Although Petrobras should not be seen as having achieved third generation status, its CSR strategy is now becoming so embedded into its business strategies. In Brazil, Petrobras and CSR are nearly synonymous with one another. This is as much a result of good marketing as it is the result of strategic efforts to incorporate the values of social responsibility throughout the company structure.

VI. Monitoring

An obvious question that comes to mind is: How do we know that Petrobras is doing what it says it is? Are its social investments and impacts towards the sustainable development of Brazilian society really as big as the company claims they are? Or is this basically a huge marketing ploy?

As alluded to earlier, marketing its brand and image obviously play a crucial role in determining Petrobras' CSR strategies. But, again, this does not mean that the company is not doing good things.

Beginning in 2003, the company's social responsibility policy passed through a change of paradigm that influenced the methodology of the elaboration of the social balance. It adopted the option of working with an integrative concept of the principal reporting models and CSR indicators, which incorporate both national and international standards. In this way, along with the Instituto Ethos model and the Ibase model, Petrobras recently began using the Global Reporting Initiative (GRI) guidelines, as well as the indicators suggested by the Brazilian Business Advisory for Sustainable Development (CEBDS) and the fields of information necessary for the Dow Jones Sustainability Index.

Copyright 2007. No quotation or citation without attribution

Two achievements stand out as proof of the fact that Petrobras is making sure it is concerned the credibility and transparency of its publications. The first reveals the high-standing of the company's reputation not just in Brazil but worldwide. Petrobras was selected by the United Nations and European Foundation for Management Development (EFMD) alliance to participate in the creation of a CSR training methodology. It was one of six companies chosen to participate in this process, the only one from Latin America, and the only one from the oil sector. This methodology will be used to help companies develop and implement CSR indicators for their businesses. The second achievement is evidence of Petrobras' transparency. A committee composed of lawyers from Linklaters and auditors from KPMG and Citigroup Global Market awarded Petrobras' Investors Relations website as the third best in the world. It was ranked as the best among companies in the oil, gas, and petrochemical sector. The ranking was based on transparency and ease of use among other variables.

VII. Conclusion

This analysis finds that Petrobras' CSR strategy has been incorporated effectively, from both a short and long run perspective. Over the last two years, the same period in which the company has intensified its CSR efforts, Petrobras has also realized record profits. This suggests that company's leadership have placed considerable importance on successfully integrating environmentally and socially responsible values into their business strategy.

The opening of the Brazilian oil market as well as the current Workers' Party president, Lula, have both weighed heavily on the decisions of Petrobras to strengthen its CSR commitments.

Copyright 2007. No quotation or citation without attribution

Whereas the first factor can be primarily seen in terms of creating the need for product and service differentiation, the second factor is quite possibly suggesting that Petrobras is being used as an instrument to carry out the government's social or regulatory agendas. These elements are all, however, inter-connected; and they are working together to drive Petrobras' current and future CSR strategies.

In light of the findings in this study, it is likely that Petrobras will continue its strong CSR strategies into the future. Whether or not the *Petrobras Fome Zero Program* will continue is not as certain. This will depend on the outcome of the 2006 presidential election.

Copyright 2005. DO NOT COPY.

VIII. Suggested Items for Further Research

1. How has the implementation of CSR policies changed Petrobas's business process? What was the company's effect on the environment and labor prior to and after the policy change?
2. What sort of scrutiny would a company like Petrobas face from NGOs, activists, and civilians? What is Petrobas doing to address their concerns?
3. Investigate the authors' claim that CSR is more aligned iwth Petrobas' business strategy compared with its international comeptitors, BP, Exxon-Mobil, and Chevron-Texaco. How do these firms define CSR? Through investment in renewable energy? Reducing carbon emissions? Or through its social projects?

Copyright 2005. DO NOT COPY.

XI. Discussion Questions

1. Who are Petrobas's stakeholders? Does Petrobas's close association with the state give its CSR programs more or less credibility than it would otherwise had it been a publicly-owned company (that is, wholly owned in the private sector)? Is Petrobas a tool for the government to implement Fome Zero? Is the company engaged in "greenwashing"?

2. How are Petrobas's CSR activities monitored? How should we evaluate its reputation and achievements? Do you find its CSR mission and activities credible?

3. According to Dutra, Petrobas made its largest profits in company history during the period its CSR polices were implemented. Is there a connection between the CSR policies and high profits? Do you believe that CSR policies were necessarily the main driver behind higher profits? What other factors could have contributed to the company's success during this period?

Copyright 2007. No quotation or citation without attribution

3. How should we evaluate Petrobras's contribution to Brazilian society? By the number of CSR activities it engages in? Or by its ability to generate profits for society? Suppose Petrobras was a wholly publicly traded company with no ties to the government. Do you think Petrobras would have still engaged in CSR policies if such policies proved to be economically unprofitable? How is this situation complicated by Brazilian government's interest in the firm?
4. The author argues that Petrobras's CSR business strategy will help the company expand into international markets. Given that most of its CSR policies are direct at Brazilian cultural and social program, how do its CSR policies give the company an advantage over its competitors in international markets? How should Petrobras develop its CSR strategy to adapt it to international markets?
5. The author suggests that because Petrobras is a dominant brand with a strong, well-known CSR agenda in Brazil, it may induce other firms to adopt CSR strategies. Do you agree with this hypothesis? Why or why not?
6. How should we assess Petrobras's decision to contribute the majority of its CSR investments into social and cultural projects rather than the development of environmental programs? How does this strategy benefit Petrobras, the government, and Brazilian civil society? Are there any "losers"?
7. The environment is the one area in which any oil company's business operations arguably generates the most negative externalities for society. In light of this, how should we evaluate the responsibility of Petrobras's promotion of the Fome Zero anti-poverty program? Is Fome Zero a step in the right direction because it is for a good cause? Or does it distract the public from criticizing the company's environmental record? Does the program prevent stricter governmental regulation on the firms' environmental management systems?
8. If a different political party took over the Brazilian Presidency, would Petrobras shift its CSR emphasis? How about control of the Brazilian Parliament? Will *Fome Zero* likely continue even if Lula leaves office in 2006?

X. References

Petrobras: Balanço Social e Ambiental 2004

Petrobras: Balanço Social 2003

Ana Claudia Cruz, "A Petrobrás e sua Nova Visão de Empresa," Carta Capital, August 2004

Simon Zadek, "Going to Scale: Aligning Corporate Responsibility to Strategies for Business and National Competitiveness," Instituto Ethos Reflexão, March 2005.

Simon Zadek, "The Path to Corporate Responsibility," Harvard Business Review, December 2004.

Copyright 2007. No quotation or citation without attribution

Andriana Lieders, “A New Chapter in Brazil’s Oil Industry: Opening the market while protecting the Environment,” Georgetown International Environmental Law Review, Spring 2001.

Ricardo Young, “Quem é o Gestor Socialmente Responsável,” Instituto Ethos: Uniethos
www.uniethos.org.br

“O valor do Mercado do Petrobras supera o da Ford e GM,” www.invertia.com.br

CENPES – Centro de Pesquisa (Petrobras)

www.fomezero.gov.br

Copyright 2005. DO NOT COPY.