

# Brazil: No Easy Miracle

## Increasing Transparency and Accountability in the Extractive Industries

By Carlos Aguilar Sánchez  
*Rio de Janeiro*

Working Paper Series 2012<sup>1</sup>

### Summary

Brazil's consolidation as an emerging economy is not easily attributed to any political or economic miracle. Brazil has consciously adapted a large part of its commercial and financial strategy to changes in the global arena. As worldwide demand has grown for raw materials—especially for single-crop agriculture, oil and minerals—Brazil's growing economy has become increasingly dependent on the export of commodities.

Mining and oil activities in Brazil are growing fast. Brazil is currently a major global player in the extractive industries, especially through Vale in mining and Petrobras in oil and gas. Rapid changes at the national level have not been accompanied by equally rapid policy developments to ensure access to public information, which would permit greater control over common resources and goods by the active global citizenry. New legislation for the mining and oil industries is being passed with little or no debate by Brazilian society.

As major companies such as Vale and Petrobras have strengthened Brazil's position as one of the world's leading oil and mineral exporters, there has been no forum for debate on the implications of this trend for health, environment, marine flora and fauna, employment, or impacts on life in affected communities. A debate on transparency and accountability is urgently needed in Brazil, together with the ability to imagine a different society, one that avoids the exclusion, marginalization and destruction of communities and nature.

Fortunately, there is an enormous network of social and political actors working on the issue: universities, NGOs, social movements and even agencies and institutes of government ministries. There is also a clear geographic focus for advocacy work: because Rio de Janeiro State and certain Amazonian states (Pará) have the largest volumes of oil and gas extraction, together they form a strategic area for work on extractive industries in Brazil.

A strategy to increase transparency and accountability in Brazil's extractive sector could begin

### Contents

Summary	1
Acronyms	2
Extractive industries and the BRIC countries	3
Brazil: A global player in the extractive industries	5
Key political players and legislation	7
Recommendations for strategic work in Brazil	9
Summary of recommendations	12
What the strategy should avoid	13
References	14

<sup>1</sup> Emerging economies are playing an increasing role in oil, gas and mining globally. This paper is one of a series commissioned by the Transparency and Accountability Initiative (T/AI) and the Revenue Watch Institute (RWI) to explore trends and promising strategies for dialogue at the national and international level. The series covers Brazil, China, India, Mexico, the Philippines, Russia and South Africa. The views expressed are those of the authors and are not necessarily those of T/AI and RWI.

## ABOUT THE AUTHOR

**Carlos Sanchez** is a sociologist specializing in human rights and human development issues, and a member of the coordination staff of the Observatorio del Pré-Sal.

The **Revenue Watch Institute** promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good. Through capacity building, technical assistance, research, funding and advocacy, we help countries to realize the development benefits of their natural resource wealth.

The **Transparency and Accountability Initiative** aims to expand the impact and scale of funding and activity in the transparency and accountability field, as well as explore applications of this work in new areas.

with Petrobras and an international consortium of NGOs implementing the ISO 26000 international standard for social responsibility. This standard, together with the Social Balance Sheet developed by the Brazilian Institute of Social and Economic Analyses, could serve as the foundation for a binding law for the entire extractive industry.

Brazil would benefit from the creation of a multi-stakeholder group that included civil society and corporations that could produce national reports on the extractive industries and social responsibility. Civil society initiatives should be strengthened, especially by forming common networks that can contribute to the creation of an overall strategic vision, both within Brazil and internationally—especially in connection with Africa and Latin America.

It would be useful to promote a political entity through which the Brazilian government could formulate transparency and accountability policies, creating mandatory reports on all overseas payments and projects by companies whose stock is listed on the stock exchange. And since the legislative debate is currently focused on the collection of revenue, it would be strategic to introduce transparency and accountability criteria into the debate on the mining code and royalties from oil extraction.

## ACRONYMS

ABM	Brazilian Metallurgy, Materials and Mining Association
ABNT	Brazilian Technical Standards Association
ABRAMT	Brazilian Association of Municipalities with Sea, River, and Land Oil and Natural Gas Loading and Unloading Terminals
ALPA	Aços Laminados do Pará
ANP	National Oil, National Gas, and Biofuels Agency
BNDES	National Economic and Social Development Bank
BNDESPar	Entrepreneurial arm of the BNDES
BRIC	Brazil Russia India China
COMPERJ	Rio de Janeiro Petrochemical Complex
CSP	Companhia Siderúrgica do Pecém
CSU	Vale e Aço Cearense and Companhia Siderúrgica Ubu
DJSI	DJ Sustainability Index
DNPM	National Mineral Production Department
EITI	Extractive Industries Transparency Initiative
FCEM	Financial Compensation for Extraction of Mineral Resources
FIOCRUZ	Oswaldo Cruz Institute Foundation
GSP	Growth Sustainability Program
IBAMA	Brazilian Environment and Renewable Natural Resources Institute
IBASE	Brazilian Institute of Social and Economic Analyses
IBRAM	Brazilian Mining Institute
ICMM	International Mining and Metals Council
INESC	Institute of Socioeconomic Studies
IPEA	Brazilian Applied Economic Research Institute
ISE	Business Sustainability Index
ISE-BOVESPA	A Stock Exchange
MRE	mineral resource extraction
PACS	Institute for Alternative Policies for the Southern Cone

PWYP	Publish What You Pay
SOX	Sarbanes-Oxley Act
TKCSA	ThyssenKrupp CSA Siderúrgica do Atlântico Ltda
USIPAR	Usina Siderúrgica de Pará

### Extractive industries and the BRIC countries

In recent years Brazil has been positioning itself as a leading emerging economy. It was the world's seventh-largest economy in 2010, with a 7.5 percent GDP growth rate. It is one of the bloc of countries known by the acronym BRIC (Brazil, Russia, India, and China), which have stood out chiefly for their vigorous growth rates in the past decade and for the importance they have been gaining in the world economy.

Trade among them expanded from \$38 billion in 2003 to approximately \$220 billion in 2010. Brazil's trade with the BRIC countries surged by 575 percent from 2003 to 2010, reaching \$72.23 billion in 2010.

Out of the 20 leading mining companies in the world, approximately 35 percent of the total market value is concentrated in Chinese, Brazilian and Indian companies.

Table 1  
Ranking of the 20 Largest Mining Companies (by market value, 2011)

Company			
1	BHP Billiton	11	Zijin (China)
2	Vale (Brazil)	12	Chinalco (China)
3	Shenhua (China)	13	Kinross
4	Rio Tinto	14	NMDC (India)
5	Barrick	15	Southern Copper
6	PotashCorp	16	AngloGold Ashanti (South Africa)
7	Goldcorp	17	Freeport-McMoRan
8	Newmont	18	China Coal (China)
9	Anglo American	19	Newcrest
10	Mosaic	20	CSN (Brazil)

Source: Ranking das 100 maiores mineradoras do Mundo. <http://www.geologo.com.br/MAINLINK22.ASP>

BRIC countries have been launching businesses and establishing agreements within the bloc that broaden their commercial potential. To cite one example, the Annual BRIC Countries Interbank Cooperation and Financial Forum Encounter was held in conjunction with the recent summit meeting held in China,<sup>2</sup> with participation by Petrobras and other companies from Brazil. Their participation is significant in view of Petrobras's existing agreement for a \$10 billion loan from the China Development Bank, with a guarantee of 150,000 barrels per day of oil for the Chinese company SINOPEC during the first year of extraction, rising to 200,000 barrels per day thereafter.

More than 13 cooperation agreements, an \$800 million loan for the National Economic and Social Development Bank (BNDES), and investments amounting to as much as \$4 billion for mining

<sup>2</sup> The principal leaders of the BRIC countries met in mid-April of this year in Hainan to debate issues of global importance such as the renewal of the international monetary system, control over international capital flows, and ways to reduce commodity price volatility.

projects in Brazil were also signed. Between 2009 and 2010 Chinese acquisitions of companies operating in Brazil increased from one such transaction to five, the value of which rose from \$400 million to \$14.9 billion. In the oil industry, chiefly Pré-Sal (the Pre-Salt formation)—in which SINOPEC participates—a joint venture with Statoil and Petrobras stands out — (\$10.7 billion), as well as \$1.22 billion of investments in the mining industry.

An important point to consider among the characteristics of this bloc of countries is the intensive process of internationalization of companies, which puts these countries' companies at the focal point of global action and offers opportunities for international pressure campaigns in the field of transparency and accountability.

According to data highlighted by the Brazilian Applied Economic Research Institute (IPEA), BRIC-country companies accounted for \$1 out of every \$7 invested overseas in 2009. In the past two years, China became the leading destination for Brazilian exports, exceeding the United States and the European Union, and it is expected to be the largest importer this year as well. In 2010, China's imports of Brazilian exports surged by 61 percent, with iron ore, oil and soybeans accounting for a dominant 75 percent of export growth.

Regarding Brazil's pattern of trade in extractive products (oil, gas and minerals) with Russia, there is a high concentration of imports of fertilizers, refined petroleum products and primary forms of iron, steel, and nickel, as well as silver, platinum and coal for South Africa (note that it is the only BRIC country with which Brazil has a different trade pattern, in which industrialized products account for a majority share).

Brazilian negotiations are under way with Russia for the creation of a joint venture between the Mr Steel UK company (built with capital from Igor Zyuzin, a major Russian investor in the mining sector) and the Brazilian steel company Usina Siderúrgica de Pará (USIPAR) for the construction of a steel complex in Barcarena, which would involve an investment of \$5 billion. Along with India, Brazil stands out as an exporter especially of crude oil and bituminous minerals, as well as of minerals and concentrates of common metals.

Outside of the BRIC framework, Brazil maintains active and interested relations with other emerging economies, especially for extraction of natural gas in the Burgos Basin of northern Mexico, as well as in oil exploration.

At least since the beginning of the past decade, the intensive growth of mineral extraction activity has been driven by the rising international demand for resources. This demand in the BRIC bloc reflects the growth of investments in urban development and infrastructure by China and India. Brazil is especially well placed to export oil to other BRIC countries, as well as to support their energy and iron industries and infrastructure construction.

Brazil's importance in this bloc is further cemented by its political leadership in the G-20 negotiations, and by its role as host of the United Nations Sustainable Development Conference (Rio +20) in 2012. One important issue for debate is the volatility of food and energy commodity prices. Brazil has actively opposed new international regulatory arrangements for the commodities derivatives market and, though the Brazilian government recognizes that the current price volatility strongly impacts the structure of trade, it takes the position that market mechanisms should be

relied upon to strengthen production and commerce.

This issue is one of generalized concern to the BRIC countries, and has been addressed in the debates held in the framework of the G-20 negotiations. From this perspective, an international initiative that succeeds in relating commodity price volatility with arrangements for transparency and accountability might be attractive not just to social organizations, but also to the governments themselves. Sectors of local and regional industry might also take an interest, since current trade conditions have depressed their competitive capabilities vis-à-vis imported products—especially from China—in other Latin American countries.<sup>3</sup>

To date, the Brazilian government's position is one of open defense of the commercial and corporate interests of its large national companies, especially in the effort to guarantee markets and adequate conditions for the commodities that form the base of the country's current exports. Social organizations should focus on trying to exert internal pressure to introduce a more advanced debate on alternative forms of transition toward societies less dependent on hydrocarbons and minerals.

There is a need for a differentiated leadership by Brazil, not just to dispute opportunities in business and international forums, but also to propose alternative development models that prioritize low carbon emissions, environmental equilibrium and respect for territories and local populations. The development model on which the Brazilian economy currently relies has a predatory impact on resources such as land, water and forests, especially in the Amazon basin and several states that depend heavily on oil and mining revenue. The current model also undermines the integration of regional processes.

### Brazil: A global player in the extractive industries

#### Petroleum and Gas

Brazil currently offers a 330,000-square-kilometer area for oil exploration, in which Petrobras holds 212 exploration blocks, Petro Energía holds 52, OGX holds 29, and HRT holds 21. The country's oil and gas reserves totaled 14.1 billion barrels of oil and 423.6 billion cubic meters of natural gas in 2010.

Rio de Janeiro state alone holds 11.7 billion barrels, and Espírito Santo State has 1.3 billion barrels. They are followed by Rio Grande do Norte with 225 million barrels of reserves. Most of the onshore natural gas reserves are in the Amazonian region (55.8 billion cubic meters), while Rio de Janeiro state continues to have the largest proportion of total reserves, 220.5 billion cubic meters.

Oil and gas production hit record highs in 2010, with a growth of 5.35 percent in oil (more than 2 million barrels per day) and 8.5 percent in gas from 2009. There are approximately 1,700 companies in the oil and gas industry in Brazil, ranging from exploration and production to distribution, shipping, services, organizations, human resources and other activities.

Furthermore, the oil and gas discoveries made in the Campos basin in mid-2011 have made it the most productive region, with 60 percent of the total. These discoveries added 2 billion barrels of oil to the 2010 total of 14.1 billion barrels calculated by Petrobras.

<sup>3</sup> Naturally, part of the problem lies in the undervaluation of the yuan and the competitive strength it generates for Chinese companies in the international market. This is also an issue in the G-20 debates, and to date the Brazilian government has pursued an ambivalent policy, one of concern but respecting the strategic alliances with China.

This has generated expectations of reaching a production volume of 1.5 million to 2 million barrels per day in the Campos basin alone by 2020. Petrobras will operate most of the projects, but extraction activities in Santos and Espírito Santo will be undertaken by a joint venture among Statoil (35 percent), Repsol Sinopec (35 percent), and Petrobras (30 percent), in addition to offshore projects such as OGX's Waimea.

Gas supply will also expand with the Pré-Sal development begun in 2011, through Mexilhão in Santos (which will inject up to 10 million cubic meters per day by 2012), and Marlim Sul in Campos. The estimated production from the Campos basin alone is projected to rise by 60 million cubic meters/day by 2017, and to reach 100 million by 2020. This growth is helping develop a domestic market capable of substituting current imports.

Following Petrobras's capitalization in September 2010, that company's market value (\$223 billion) made it the world's second-largest oil company, exceeded only by Exxon Mobil. By no means coincidentally, the joint venture announced investments of up to \$212.3 billion for oil exploration and production in Brazil from 2010 to 2014. Petrobras anticipates investments of more than \$70 billion for the Pré-Sal in the Santos basin alone through 2015. Estimates point to an annual production volume of 613,000 barrels per day of oil, reaching 1 million barrels per day by 2017. The first sale of a million barrels from the Pré-Sal was made to Chile in May 2011.

#### **Mining Activity**

Brazil's mineral extractive industry achieved sales of \$40 billion in 2010, 67 percent higher than in 2009, according to the Ministry of Energy and Mines. The total volume of investment in the sector expected to reach \$62 billion from 2010 to 2014, the largest investment anywhere in Brazil's private sector.

According to estimates released by the National Mineral Production Department (DNPM), 7,809 companies were registered in the mineral extractive industry in 2009, most of them located in the southeast (3,341), south (1,874) and northeast (1,248). The leading mineral-producing states are Minas Gerais (48 percent), Pará (28 percent) and Goiás (5 percent).

Brazil is currently considered one of the world's most important mineral-exporting countries, with iron ore accounting for 81.8 percent of total world exports, followed at a considerable distance by gold (5.1 percent), niobium (4.4 percent) and copper (3.5 percent). With the exception of a small decline in 2009, the financial contribution of mineral resource extraction (MRE) has been growing rapidly in Brazil. It jumped 46 percent from 2009 to 2010, generating \$1.1 billion BRL of tax revenue—4 percent of national GDP. Small companies generated 73 percent of the revenue from the sector.

The Amazonian region plays a leading role in the growth of mining. Exports from the region grew substantially over the past decade, reaching \$26 billion in 2010. Pará State is responsible for 48 percent of the total value of these exports, according to a report produced by the Institute of Socio-economic Studies (INESC).

Most of these exports stem from mining activity, especially by such companies as Alunorte, Albrás and Vale. Those three companies account for 78 percent of the value of exports, amounting to \$10 billion. However, with iron ore the leading Brazilian mineral export, Vale stands out in the field of local and international extractive industries. After reporting earnings in the neighborhood of

\$30 billion BRL in 2010, Vale announced plans to raise production and acquisition of copper to 1 million tons in 2011.

Approximately 101 million tons of iron ore are estimated to have been extracted from the Sierra de Carajás in southern Pará State, where the world's largest open-pit iron exploration mine is located, in addition to major reserves of aluminum, gold, copper and nickel, among other minerals. The other important region for iron ore extraction is the so-called Minas Gerais Iron Quadrangle, which also harbors significant reserves of gold and bauxite.

The Brazilian company's top management plans to position Vale as a global leader, with an output of approximately 522 million tons of iron ore by 2015, in addition to mining nickel, copper and metallurgical coal. The company's investments in Brazil alone totaled \$7.75 billion in 2010. It also plans to invest about \$9.6 billion in new overseas projects through 2014, chiefly in Peru, Argentina, Canada, Guinea, Zambia, Mozambique, Indonesia, Malaysia and Oman.

Vale is also promoting associations with the steel companies through joint ventures, chiefly with ThyssenKrupp CSA Siderúrgica do Atlântico Ltda. (TKCSA), Companhia Siderúrgica do Pecém (CSP), Aços Laminados do Pará (ALPA), Vale e Aço Cearense and Companhia Siderúrgica Ubu (CSU).

### Key political players and legislation

With Brazil's intensive program of extraction of oil, gas and minerals, as well as ambitious projects planned for the future, it is reasonable to anticipate a set of crises involving not only the extractive activities, but also the entire production chain linked to the steel and service industries, including the distribution and use of public revenues from these activities.

The Amazonian region is an immense mineral reservoir, especially of iron ore, bauxite, manganese, copper, nickel and other minerals for which there is great demand. The region also has numerous steel mills: 14 along the Carajás iron route, seven in Marabá-PA, five in Açailândia-MA, and two in São Luis do Maranhão.

NGOs such as Observatorio Social have noted one current crisis in the region: illegal resource extraction and slave-labor conditions across the entire chain of production, from illegal coalmines to automobile factories. Vale signed an agreement with the federal government in 2008 not to sell iron ore or coal to steel companies that were involved in cases of slave labor and environmental destruction. In May 2011, however, murders of community leaders revived questions in the media about Vale's sales to those companies.

Another issue, especially in the Amazonian region, involves the mining operations known as *garimpos*, which are small-scale mining groups formed to extract gold, diamonds and other minerals. Practically all the states of the Brazilian Amazonia experience this phenomenon, and companies such as Vale have been implicated in some cases. Garimpos frequently come into conflict with local populations, especially indigenous peoples, over land rights and the environmental impacts of their mining. Complaints of harm to fishermen and pollution have been documented in reports from NGOs, such as the Institute for Alternative Policies for the Southern Cone (PACS), FASE, Osvaldo Cruz Institute Foundation (FIOCRUZ), INESC and even the Brazilian Institute of Social and Economic Analyses (IBASE), through the Extractive Industries and Pré-Sal Observatory.

In addition to the work of these NGOs, there are major community organization efforts opposing the destructive impacts of mining in the region, for example, through networks such as Atingidos pela Vale (People Impacted by Vale).

Brazil does not have rules or legislation to ensure transparency and accountability in the extractive industries, in spite of the presence of a large number of public agencies related to the sector, such as the Ministry of Mines and Energy and the Ministry of the Environment. Others include the National Mineral Production Department (DNPM); the Brazilian Mining Institute (IBRAM); the Brazilian Metallurgy, Materials and Mining Association (ABM); the National Oil, National Gas, and Biofuels Agency (ANP); and the Brazilian Environment and Renewable Natural Resources Institute (IBAMA), which is responsible for environmental licensing.

Some initiatives by the Federal Public Administration can be utilized in the work of NGOs, including so-called public transparency pages. These online pages provide data on spending, budgetary management, bidding processes, contracting and agreements by all organs the federal government runs directly or indirectly. This includes foundations, state-owned enterprises and mixed-economy companies.

The Corporations Act (1976) and the Finance Ministry's Personal Securities Commission mandate public access to information on traded securities and the companies that issue them. All of this can serve as a foundation for legal debate on a model for transparency and accountability in the extractive sector.

Transparency and accountability initiatives by Brazilian companies have shown promise, whether implemented through voluntary policies or linked to international institutions such as the International Mining and Metals Council (ICMM), the UN Global Pact, or the Business Sustainability Index (ISE 2011) of the Bovespa Stock Exchange, of which Vale is the leading mining signatory. As a member of the ICMM, Vale is a contributor to the Extractive Industries Transparency Initiative (EITI), to which Petrobras belongs as well.

Petrobras, for its part, stands out as the only Latin American oil and gas company on the United Nations International Global Pact Council. It is also reflected in the DJ Sustainability Index (DJSI), and it follows the parameters of the Sarbanes-Oxley Act (SOX) enacted by U.S. Congress in 2002 to protect investments by increasing the reliability of the information disclosed by corporations. In 2010, Petrobras and the Brazilian Technical Standards Association (ABNT) also jointly promoted ISO 26000, an international social responsibility standard.

Special attention should be called to two particular characteristics of Petrobras. First, the company no longer reports to the ISE-Bovespa stock exchange. Petrobras adopted a model developed together with IBASE for a corporate "social balance sheet," an annual report of the company's social initiatives and contributions that accompanies its financial disclosures. Petrobras has applied this model each year through the sustainability reporting process.

Second, there is intense debate on the oil and mining sector in national legislative circles over the current model of Financial Compensation for Extraction of Mineral Resources (FCEM)<sup>4</sup> set by the

<sup>4</sup> The difficulty of accessing proposals put forward in these debates is one of the current problems with transparency among government organs such as the Congress and the Senate.

Ministry of Mines and Energy. The FCEM is a percentage of net profits from mineral product sales that companies must pay to the federal government. Portions of this payment compensate the municipality and the federal state where the minerals are extracted, and pay for environmental protection efforts. There is also debate over the Mining Code as a whole.

After five years of negotiation, on November 30, 2012, Brazilian President Dilma Rouseff signed into law a bill that maintains the current royalty structure from already-auctioned fields. However, it stipulates that new concessions will pay higher overall royalties of 15%, and expands the share of these royalties to non-producing states and municipalities. The deal represented a compromise to deter producing states from taking their revenue claims to court. A formula for distributing royalties is to be established by the end of January to enable scheduled auction of exploration blocks that has been delayed since 2008.<sup>5</sup>

Another important issue to consider is the Brazilian state's investment and financing programs through the National Economic and Social Development Bank (BNDES). In August 2011, the bank created a program of support for the development of the chain of suppliers of goods and services related to the oil and gas industry—BNDES P&G—with a budget of 4 billion BRL for 2015.

In February 2011, following the Brazilian government's 6.4 billion BRL capitalization for BNDES, 223.6 million BRL was transferred in the form of Petrobras common shares pursuant to Provisional Measure 500, which authorized the national treasury to capitalize state institutions through the transfer of shares of other state-owned or mixed companies. In March 2011, a new treasury contribution of 55 billion BRL raised the BNDES capital by 145 billion BRL to cover financing programs, including one-third of the Growth Sustainability Program (GSP).

In July 2011, the entrepreneurial arm of the BNDES (BNDESPar) reported 42.6 billion BRL for the purchase of partnership interests in oil and mining companies. This included 22 billion BRL for shares in Petrobras and 3.9 billion BRL for shares in Vale. BNDESPar's investment portfolio includes 36.5 percent in oil and gas, and 21.2 percent in mining. BNDES Platform,<sup>6</sup> which operates as a network of civil society organizations that oversee the bank's investments, can exert pressure for transparency and accountability in BNDES's operations, both in Brazil and overseas. It is strategic to include this work in an alliance for transparency of investments in mining, gas, and oil.

### Recommendations for strategic work in Brazil

Brazil is currently a global player in the extractive industries, especially through Vale in mining and Petrobras in oil and gas. Both the extraction of resources, and the economic, social and environmental effects that accompany extraction are geographically concentrated.

Some striking data can help identify areas with the greatest potential for action. Ten large companies operate in the oil and gas industry in Brazil: Petrobras, Petra Energia, HRT O&G, OGX (EBX Group), Shell, Imetame, Petrogal, Devon, Statoil and Repsol YPF. The first two control 66 percent of total operations. One large company, Vale, controls the iron ore market. Petrobras reported 35 billion BRL of profit in 2010, making it the most profitable company in Brazil. Vale earned 30 billion BRL in 2010. Vale poses an interesting opportunity to push for greater transparency. Though

<sup>5</sup> <http://www.bloomberg.com/news/2012-11-30/rousseff-vetoes-part-of-royalties-law-to-avoid-delay-in-auctions.html>; <http://www.economist.com/news/americas/21567943-finally-deal-sharing-out-oil-bonanza-roll-out-barrels>

<sup>6</sup> See <http://www.plataformabndes.org.br>.

it is a private company, most of the shares of the ValePar Group that controls it belong to Litel Participaciones [sic] S.A., comprised of a number of pension funds: Previ (of Banco do Brasil), Fucef (of the Caixa), and Petros (of Petrobras). Adding the 48.79 percent of the shares held by Litel and the 9.79 percent held by BNDES, the Brazilian state effectively controls 58.58 percent of ValePar.

Because Rio de Janeiro state and certain Amazonian states (Pará) have the largest volumes of oil and gas extraction, together they form a strategic area for work on extractive industries in Brazil. Amazonia is especially important. As is stated in the 2030 National Mining Plan, Amazonia is the principal frontier for the expansion of mining activity in the coming years. The work of INESC in relation to the Investment in the Brazilian Amazonia Observatory,<sup>7</sup> together with the Extractive Industries and Pré-Sal Observatory pursued by IBASE, can be essential contributions for a differentiated strategy in these areas.

Without a doubt, the current problems affecting communities will get worse: pollution and environmental devastation; the territorial and cultural displacement of indigenous populations, failure by companies to restore damaged areas to their original condition; social upheaval; and the changes in sources of livelihood, especially in fishing where oil and gas is extracted in bays.

If any transparency strategy is to have real consequences for the environment and communities, it should seek to address these problems. One avenue would be for Petrobras and an international consortium of NGOs to implement the ISO 26000 standard for social responsibility. This standard, together with the IBASE Social Balance Sheet that Petrobras is using in its sustainability reports, could serve as the foundation for a binding law for the entire extractive industry in Brazil. In addition, IBASE's current work to design social indicators for the Rio de Janeiro Petrochemical Complex (COMPERJ) could be used as a pilot project for civil society monitoring of extractive industry projects in Brazil.

Legislative debate in Brazil is currently focused on the collection of revenue from extractive activities. Naturally, transparency and accountability are key to defining better proposals for the Social Fund or the new framework for FCEM. It would be strategic to introduce transparency and accountability criteria into the current legislative debate on the mining code and royalties from oil extraction. IBASE, in association with other organizations in Brazil, is working with congressmen from the PSOL and PT parties to propose a social fund in the mining sector. Their efforts provide another forum for discussing transparency and accountability.

There are a large number of organizations in Brazil not connected to the active civic organizations taking part in these debates. Some, like the National Confederation of Municipalities, the Association of Mining Municipalities of Brazil, the Organization of Oil-Producing Municipalities or the Brazilian Association of Municipalities with Sea, River, and Land Oil and Natural Gas Loading and Unloading Terminals (ABRAMT) demonstrate that this debate is still highly focused on state and municipal governments. It is crucial that a strategy for boosting transparency and accountability take these players into account in order to broaden the debate and generate new areas for intervention.

It would also be useful to foster greater participation in these debates by NGOs and universities,

<sup>7</sup> This observatory (watchdog group) addresses the issue of transparency in public policy, legislation and regulations bearing on the development of the Amazon basin (<http://observatorio.inesc.org.br/>).

including through public hearings during the environmental licensing process. This would help generate alternative proposals and more transparent information by cabinet officials, corporations and government as a whole. IBASE's research on the COMPERJ and TK-CSA licensing processes demonstrates the need for transparency at all stages, especially because the process offers a legal framework to stimulate civil society participation.

Furthermore, the pursuit of transparency should not be limited to extractive companies. It is of the utmost importance to consider the entire production chain, from the extraction of raw materials to the marketing of the final product. A little-debated topic is the use of compensation and royalty revenues by state governments, and especially by their prefectures. For example, according to the INESC report, the Pará State Transparency Portal ([www.portaltransparencia.pa.gov.br](http://www.portaltransparencia.pa.gov.br)) shows that most royalties are used to expand infrastructure useful for resource extraction. A transparency and accountability strategy should include the administration of revenue, as well as the environmental licensing process.

A possible framework for transparency and accountability work in Brazil is the First National Transparency and Social Control Conference, scheduled by the Office of the President for May 2012, to be chaired by the Office of the Comptroller General. Preliminary conferences were scheduled throughout Brazil between September 2011 and April 2012. Though this initiative focuses mainly on public management, it provides a good framework for debate on how to achieve the current voluntary initiatives of the sustainability reports presented by companies such as Petrobras and Vale.

Certain social responsibility forums, such as the Ethos Institute, also provide paths for dialogue with the business community. Associations and alliances with the business and political sectors should be top priorities for a transparency and accountability strategy. Organizations such as the Ethos Institute could provide forums to discuss the creation of a multi-stakeholder group of civil society and companies that would produce national reports on the extractive industries and social responsibility.

A range of initiatives have expressed interest in working on this issue, such as Publish What You Pay (PWYP), the Extractive Industries Transparency Initiative (EITI) and initiatives related to the Ford Foundation and the International Budget Partnership. An effort should be made to bring these initiatives together in a joint strategy to take advantage of Petrobras and Vale's voluntary association with the EITI. A strategy along these lines should take care not to provoke conflicts with Brazilian government agencies. The Foreign Ministry, for example, has in the past made statements hostile to the EITI and to companies such as Petrobras that sit on the EITI's International Governing Council.

However, it is possible to induce the Brazilian government to formulate transparency and accountability policy frameworks, making it mandatory to submit reports that will make all overseas payments and projects by companies whose stock is listed on the BOVESPA Exchange public, similar to the Dodd-Frank Act in the United States. New associations such as the Open Government Partnership should be used to put pressure on the Brazilian government to do so. One situation that deserves attention and care is the relationship with Petrobras in this field, due to the prior conflict involving ISE-BOVESPA, Petrobras and the Ethos Institute.

Some groups in Brazil, such as the Sustainable Amazonia Forum and the Brazilian Environmental

Justice Network, are focused on investigation, denunciation and social resistance. In order to engage such groups, it is advisable to start with a focus on alternative and post-extractive development models in Brazil, starting with the debate on the initiative to block oil extraction in Yasuní-ITT.

There are a large number of organizations that can be essential participants in forming a larger strategy that includes the advancement of transparency and accountability but is not limited to it, such as the Equit Institute (which focuses on the extractive industry's impacts on women), the Single Petroleum Workers' Federation, the Petroleum Workers' Union-RJ, the Brazil Network, the More Democracy Institute, the Brazilian Integration of Peoples Network, the Landless Peasants' Movement, and university groups such as those in the Federal University of Pará and Rio de Janeiro. The network "The Pré-Sal is Ours," created with clear reference to Brazil's historical "The Oil is Ours" movement, could be involved as well.

Transparency and accountability strategy should not rely on individual organizations, but should be open and participatory. National coordination among civil society organizations working on these issues can be fostered by the creation of a national network, with funding allocated more to the formulation of policies than to specific projects by individual organizations. Potential models are provided by the coordination of civil society participation by the Office of the President, the current debate over the creation of a national mineral policy council, and the Socio-environmental Citizenship and Responsibility Department of the Ministry of the Environment.

Any initiative in this field should start with a recognition of the principal conflicts and problems provoked by Brazil's extractive companies, both domestically and abroad. It would be strategically useful to support applied research specifically designed to impact current legislative debates. Such research should cover the impacts of the current extraction model in Brazil, particularly in relation to the growing expectations for the Pré-Sal.

Finally, it is possible to promote the creation of a national transparency report in the mining and oil industries, with participation by the government, civil society and companies. The report would cover all payments made by extractive companies to agencies of the union and state governments: the way these funds are distributed, managed and applied in accordance with legislation, as well as their final use.

### Summary of recommendations

- Support applied research to have an impact on current legislative debates, starting with a recognition of the principal conflicts and problems that Brazil's extractive companies provoke domestically and abroad.
- Consider engaging a variety of civil society organizations, especially those with a gender-sensitive approach, in the process of elaborating, formulating and applying a broader strategy that includes transparency and accountability.
- Strengthen civil society initiatives, especially by forming common networks that can contribute to the creation of an overall strategic vision, both within Brazil and internationally, especially in connection with Africa and Latin America.
- Support national coordination among social organizations working on the issue, allocating funding to the process of formulating of policies.
- Foster the creation of a multi-stakeholder group including civil society and corporations that can produce national reports on the extractive industries and social responsibility.

- Carry out studies on the impacts of the current extractive model in Brazil, particularly in relation to the growing expectations for the Pré-Sal.
- Promote a political entity through which the Brazilian government can formulate transparency and accountability policies, creating mandatory reports on all overseas payments and projects by companies whose stock is listed on the stock exchange.
- Produce a national report on transparency in the oil and mining sector with the participation of government, civil society and companies. The report should cover all payments made by extractive companies to agencies of the union and state governments.
- Incorporate transparency and accountability strategy into the environmental licensing process and the public management of resources.
- Make use of the ISO 26000 social responsibility standard, together with the Social Balance Sheet developed by IBASE, as the foundation for a binding law for Brazil's extractive sector.
- Design social indicators for broader for civil society monitoring of extractive industry projects.
- Use the pension funds in ValePar to foster a debate, including the unions and citizenry in general, on Vale's transparency.
- Support the investments in the Brazilian Amazonia Observatory, the Extractive Industries and Pré-Sal Observatory, and the BNDES Platform, as a way to intensify the monitoring of the extractive industries, investments and public funds.
- Introduce transparency and accountability criteria into legislative debate over the mining code and the issue of royalties and special shares, through key associations with political forces and social organizations in Brazil.

### What the strategy should avoid

- It should not take transparency and accountability as its starting point, but rather, the debate on alternative and post-extractive models in Brazil.
- It should not be based exclusively on the role played by extractive companies. It should consider the entire production chain, from the extraction of raw materials to the marketing of end products.
- It should not create conflicts between agencies of the Brazilian government and companies, such as Petrobras, that sit on the EITI's International Governing Council.
- It should not rely on individual organizations, but should involve open, participatory processes for the formulation of proposals and the establishment of a collective channel of participation.
- It should not lack a communication strategy, especially vis-à-vis the print media and government agencies.

### REFERENCES

Danielle Bambace and Leandra Goncalves, *Mar, petróleo y biodiversidade. A geografia do conflito*, (Greenpeace, 2010).

Leila Coimbra, "Compra de ações pelo BNDESPar já atinge R\$42 bi," *Jornal Folha de Sao Paulo*, (July 1, 2011), <http://www1.folha.uol.com.br/mercado/937296-compra-de-aco-es-pelo-bndespar-ja-atinge-r-42-bi.shtml>.

"Relaciones Comerciales e Inversiones de Brasil con los demás Países BRICS," *Comunicados de IPEA #86*, (Brasilia: April, 2011), [http://www.ipea.gov.br/portal/images/stories/PDFs/comunicado/110413\\_comunicadoipea86.pdf](http://www.ipea.gov.br/portal/images/stories/PDFs/comunicado/110413_comunicadoipea86.pdf).

Raimundo Augusto and Corrêa Mártires (coord), *Informe Mineral Regional: Norte-Amazonía 2007-2008*, (Ministerio de Minas y Energía DNP/PA), [http://www.dnpm.gov.br/mostra\\_arquivo.asp?IDBancoArquivoArquivo=2742](http://www.dnpm.gov.br/mostra_arquivo.asp?IDBancoArquivoArquivo=2742).

“Presupuesto, Derechos y Medio Ambiente en la Amazonía Brasileña,” *INESC 25 Año X*, (April 2011).

Jean Pierre Leroy and Julianna Malerba, “IIRSA, Energía y Mineración. Amenazas y Conflictos para las Tierras Indígenas de la Amazonía Brasileña,” *FASE*, (2010).

Ministerio de Minas y Energía, “Plan Nacional de Mineración 2030,” (SGM, 2010), [http://www.mme.gov.br/sgm/galerias/arquivos/plano\\_duo\\_decenal/Plano\\_Nacional\\_de\\_Mineral\\_2030\\_Consulta\\_Publica\\_10\\_NOV.pdf](http://www.mme.gov.br/sgm/galerias/arquivos/plano_duo_decenal/Plano_Nacional_de_Mineral_2030_Consulta_Publica_10_NOV.pdf).

“Observatorio del Pré-Sal y de la Industria Extractiva Mineral en Brasil,” IBASE/FUP/FASE/Justicia nos Trilhos (Patrocinio RWI), [www.observatoriodopresal.com.br/](http://www.observatoriodopresal.com.br/).

Petrobras, “Relatorio de Sustentabilidad 2010,” Comunicación Institucional/Responsabilidad Social/Gerencia Sectorial de Orientaciones y Prácticas de Responsabilidad Social (2011), [http://www.petrobras.com.br/rs2010/downloads/Relatorio\\_de\\_Sustentabilidade\\_2010\\_Petrobras.pdf](http://www.petrobras.com.br/rs2010/downloads/Relatorio_de_Sustentabilidade_2010_Petrobras.pdf).

Petrobras, “Plano de Negocios 2011-2015,” RJ-Brasil, <http://sala.agenciapetrobras.com.br/Arquivos/Anexo/2314-PETROBRAS-DIVULGA-PLANO-DE-NEGOCIOS-2011-2015.pdf>.

Nivaldo Souza, “Vale planeja elevar producao de cobre a 1 milhao de toneladas em 2011,” *Jornal Brasil Economico*, (February 28, 2011): 24.

Vale, “Relatorio de Sustentabilidad 2010,” Departamento de Medio Ambiente y Desarrollo Sustentable (2011), <http://www.scribd.com/doc/60017296/RSE-Reporte-de-Sustentabilidad-de-VALE-2010-Brasil>.



Revenue Watch Institute  
1700 Broadway  
17th Floor  
New York, NY 10019  
Phone 1.646.929.9750  
[rwi@revenuewatch.org](mailto:rwi@revenuewatch.org)

The Transparency and Accountability Initiative  
c/o the Open Society Foundation  
Cambridge House, 4th fl, 100 Cambridge Grove  
London W6 0LE, United Kingdom  
+44 (0)207 031 0200  
[contact@transparency-initiative.org](mailto:contact@transparency-initiative.org)