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Petrobras shows corruption is now a high-stakes game in Brazil

Samantha Pearson

A protester dressed as Batman denounces the Petrobras affair in Brasília earlier this year

In the 1980s, corruption in Brazil was a simple, albeit sweaty, affair. The first challenge for any executive entrusted with paying a bribe was to traipse up and down the streets to find enough black market money dealers willing to sell dollars, explains one former government contractor. In a decade when Brazil changed its currency more often than its president, kickbacks in greenbacks were considered the only ones worth having.

The second challenge was to take the cash to the meeting place, which often involved donning a long winter coat stuffed with banknotes under the tropical sun. "The biggest danger back then was passing out from heat exhaustion," says the former contractor.

The multibillion-dollar corruption scandal engulfing Brazil's state-controlled oil company Petrobras could not be more different. With cash allegedly siphoned through more than 300 Swiss bank accounts and laundered via everything from petrol stations to art works, the country's largest graft scheme is so complex that after a year of investigating, the authorities are only just beginning to understand it.

While the latest scandal has shocked Brazilians and foreign investors alike, this evolution of corruption in Brazil over the past few decades is, in fact, proof of progress, analysts say. As the federal police and prosecution service have gained ever more autonomy and influence since the end of military rule in 1985, corruption rings have been forced to come up with increasingly sophisticated methods to survive.

"Even just 10 years ago, [corruption] was so commonplace that people weren't even scared of getting caught," says André Camargo, professor of law at Brazil's Insper business school.

But while the Petrobras investigation, dubbed "Carwash" by police, may be considered a victory in Brazil's battle against impunity, it also serves as the clearest compliance warning yet for multinationals operating in the country and other emerging markets.

In Brazil, foreign companies have long faced pressure to pay "grease" payments to speed up regulatory processes or fund bribe paying via third-party consultation services simply to compete with local players. However, as the Petrobras case has shown, the risks of being caught have never been higher, says Edward Jenkins, a British lawyer who advises companies expanding to Brazil as well as the Caribbean.

The Petrobras scandal has already sucked in more foreign companies than any other in Brazilian history, with Rolls-Royce and the Netherlands' SBM Offshore accused of paying bribes to win contracts at the oil major. Singapore's Keppel and Sembcorp Marine have also been accused of participating in the bribes-for-contracts scheme at Petrobras's drilling provider Sete Brasil. Following allegations made by a former Petrobras and Sete Brasil executive, Rolls-Royce has said it will take the necessary action to ensure compliance, SBM Offshore said it is co-operating with the investigation and both Keppel and Sembcorp denied participating in such a scheme.

As emerging markets such as Brazil, India and China make greater efforts to tackle corporate wrongdoing, the US and the UK are also closing in from home, strengthening the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act. Crucially, there is more co-operation between developed and developing markets.

“The advice I give to foreign companies is to play by your home rules or you’re going to get your fingers very badly burnt,” says Mr Jenkins.

However, following such advice is easier said than done in Brazil. While the country’s performance in global corruption indices is not dire — Transparency International ranked Brazil ahead of China and India in 2014, and on a par with Italy — general rule-breaking is endemic at all levels of society.

Studies such as the Americas Barometer survey show Brazilians perceive corruption and rule-bending to be worse than international rankings suggest.

More anecdotal evidence also reveals a widespread disrespect for law and order. A study of parking tickets by US academics Raymond Fisman and Edward Miguel, for example, showed that Brazilian diplomats outperformed all other nationalities in Latin America in their abuse of parking privileges in New York City.

“Corruption is embedded in the culture here and that’s something that’s very hard to change — it’s the Brazilian *jeitinho*,” says one executive of a Europe-based company in Brazil, referring to the national habit of circumventing rules.

Literally “little way”, the *jeitinho* in its most innocuous form is considered a positive trait of Brazilian culture because it is an expression of resourcefulness and informality that is often traced back to the country’s mixed heritage and Iberian ancestry.

> There are markets where it is humanly impossible to play by the book
>
> \- André Camargo, law professor, Insper business school
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However, the concept also extends to unethical behaviour such as queue-jumping and illegal practices such as parents bribing driving instructors so their children can pass their tests.

For businesses, the *jeitinho* is particularly dangerous when it comes to navigating the country’s labyrinthine bureaucracy and tax systems (to comply with the latter, an average company must set aside 2,600 hours a year, according to the World Bank). Intermediaries have emerged to help companies cut down on the paperwork for a fee, part of which often falls into the hands of local officials.

It is a vicious circle, whereby so many individuals in positions of power profit from the country’s bureaucracy that legitimate efforts to cut red tape are met with huge resistance. “There are markets where it is humanly impossible to play by the book because the bureaucracy that has been created is so insuperable,” says Insper’s Professor Camargo.

The only solution for multinationals is to invest more in compliance in countries such as Brazil. Many make the mistake of allocating budgets for audits and compliance reviews simply in proportion to the revenues of their foreign subsidiaries, says Mr Venkatesan.

With Brazil facing what could be its worst recession in a quarter of a century, country managers may struggle to convince their head offices to invest more there. However, as more foreign companies are sucked into the Petrobras scandal it is becoming clear that multinationals can no longer afford to break the rules either.

“This is an inflection point for Brazil,” says Mark Weinberger, global chairman and chief executive of professional services provider EY. “Companies are figuring out that it’s never worth taking the short cut to be able to compete on a particular project or market opportunity by risking the brand.”

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