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Energy: Oil & Gas

Brazil: Trends & Developments

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Trends and Developments

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The Brazilian energy matrix is diversified, and even though the importance of oil and gas has been steadily growing in the country, oil and gas currently represent 14.66% of energy usage – still relatively low when compared with hydropower, which provides 62.54% of total energy demand. In April 2020, Brazil produced 2.958 million barrels per day (MMbbl/d) of oil and 124 million cubic metres of gas per day. Total proven reserves are estimated at 12,712 MMbbl of oil and approximately 364,582 million cubic metres of gas. Production in the pre-salt layer reached 2.057 MMbbl/d of oil and 85.964 million cubic metres per day of natural gas in April 2020, which represented 69.5% of the total production in Brazil.

The Brazilian oil and gas industry has been profoundly affected by external factors in 2020. The most critical factor was the COVID-19 outbreak combined with the plunge of oil prices due to the fall in global demand.

The Effects of the Coronavirus Pandemic on the Oil Industry

The increase in the production combined with the low demand for oil from the countries in lockdown led international oil prices to drop to record-breaking lows at the beginning of 2020.

Amidst the pandemic, the Brazilian market has been deeply impacted, like many other oil-producing countries, inducing oil companies operating in Brazil to reassess their plans for the foreseeable future.

In this scenario, projects with low profitability are more likely to lose strength. The impact of the coronavirus pandemic reduced the attractiveness of most ongoing divestment processes. Such effect can be exemplified by Petrobras' current strategic plan, counting on positive net present value, with the Brent spinning between USD45 and USD50 per barrel, while the breakeven of the pre-salt production development is in the range of USD35 to USD45 per barrel, as previously stated by the state-owned company.

The National Agency for Petroleum, Gas and Biofuels (ANP) has issued several resolutions to deal with the current pandemic and has extended deadlines of upstream agreements, loosened contractual commitments in the exploration and production stages, and suspended certain obligations regarding demobilisation of operational personnel.

More recently, oil prices have started climbing back up. They are still far from the quotation reached in January 2020, but this steady climb is increasing the feasibility of new endeavours or even of projects that were halted during the pandemic.

Petrobras Divestment Plan

In November 2019, Petrobras announced its 2020–24 investment plan, with a new budget of approximately USD75.7 billion, of which 84.94% is allocated to exploration and production, 11.1% to refining and gas, and 3.96% to other areas.

Despite the crisis, Petrobras has continued with its divestment programme of certain upstream, midstream and downstream assets, which has opened up new opportunities for foreign investment.

In these uncertain times, Petrobras and other oil companies have focused on their core activities and projects, and divesting in ancillary projects, such as onshore and shallow water assets. This focus enables companies to reduce expenses, while at the same time generating income for the sale of such non-core assets, unveiling opportunities for smaller independent players to develop such projects.

Petrobras estimates between USD20-30 billion from the sale of assets in 2020–24. In 2019, the company divested a total of USD21.3 billion in assets. These sales included 30% of its participating interest in BR Distribuidora, a listed company in charge of Petrobras' retail business, reducing its participation from 70% to approximately 40%; and 90% of its participating interest in Transportadora Associada de Gás (TAG), a natural gas pipeline company;

Among the ongoing divestment processes that are being carried out by Petrobras, it is worth mentioning:

- the sale of refineries by agreement with the Administrative Council of Economic Defense (CADE);
- the sale of its participating interest in BSBios, the country's largest biodiesel producer;
- the sale of its remaining participation in TAG, which started its bidding phase in March 2020;
- the sale of 51% of its equity stake in Gaspetro, the holding of Petrobras gas assets, with shares in local distribution companies;
- the divestment of power plants; and

- the sale of non-core onshore and offshore fields, with the newest teasers recently published by Petrobras regarding the fields of Papa-terra (Campos Basin), Merluza and Lagosta (Santos Basin), Manati (Camamu Basin), Espada, Curimã, Xaréu and Atum (Ceará Basin) and Anambé, Arapaçu, Cidade de São Miguel dos Campos, Furado, Paru, Pilar and São Miguel dos Campos (State of Alagoas), amongst others.

ANP Bidding Rounds

The attractiveness of Brazil's offshore upstream rounds has decreased due to the drop in oil prices. Such a downturn resulted in the suspension of the "Brazil Round 17" for exploratory blocks under the concession regime.

Even before, on 6 November 2019, the "Production Sharing Bidding Round" for surplus volumes exceeding 5 billion barrels was held by the ANP. Out of the four areas in the Santos Basin offered, the areas acquired were (i) Itapu, by a consortium formed by Petrobras (90%), CNOOC (5%) and CNODC (5%); and (ii) Búzios, entirely by Petrobras, with a total signature bonus of BRL69.96 billion. The Atapu and Sépia areas had no offers. For some, these timid results showed supermajors' lack of interest due to legal uncertainties arising from the production sharing regime.

Despite the market environment, the ANP kept the First Cycle of the "Permanent Offer," which consists of a continuous offer of fields returned (or in the process of relinquishment) and exploratory blocks offered in previous tenders that were not acquired or returned to the agency.

Gas Market in Brazil

The size of the gas market in 2019 continued to grow, showing an increase of 8.5% when compared to 2018, totalling approximately 44.7 billion cubic metres. Gas imports amounted to nearly 9.8 billion cubic metres.

Currently, different public agencies are working towards a review of several aspects of the natural gas sector. For instance, the CNPE has published Resolution No 16/2019, establishing guidelines and improvements to energy policies aimed at fostering free competition in the natural gas market.

The Gas to Grow Programme (*Gás para Crescer*) was an initiative co-ordinated by the Ministry of Mines and Energy (MME). It was aimed at improving the legal and regulatory framework of the natural gas sector, to encourage the entry of new players, which is especially important considering the gradual reduction of the role of Petrobras in that market.

Bill # 6407/19 to revoke the Gas Law has been presented before Congress. It introduces crucial improvements, mainly regarding natural gas transportation, because the current Gas Law has not succeeded in bringing investment into transportation infrastructure. It also provides for the creation of a natural gas transport system, the adoption of a transport tariff based on the "entry/exit model", the expansion of third-party access to infrastructure, and corporate unbundling. Bill # 6407 is expected to be voted on this year.

TRENDS AND DEVELOPMENTS BRAZIL

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Schmidt, Valois, Miranda, Ferreira & Agel was the first Brazilian firm dedicated to natural resources and infrastructure, focusing on oil, natural gas, energy, mining, water resources, construction and the operation of ports, platforms, vessels, pipelines, offshore equipment, roads and highways, project and corporate finance. The firm has participated in the development of upstream, midstream and downstream projects in Brazil, assisting domestic and foreign suppliers in their negotiations with Petrobras and other operators. Formed by partners

with an extensive background in natural resources, particularly in oil and gas, the firm provides legal services to a significant number of domestic and international companies. The firm has been involved in several farm-in and farm-out transactions concerning onshore, offshore, exploratory, development and producing fields in the Brazilian upstream sector. Another area of high exposure is downstream oil production matters. Lately, SVMFA has given legal advice in respect of LNG importation and regasification, as well as natural gas distribution.

Author



Paulo Valois Pires has a practice that involves the representation of IOCs, NOCs, private equities, financial institutions, suppliers of oil and gas, mergers and acquisitions, private placements, offshore supply, pipeline construction, LNG projects, infrastructure, and tax-related matters. He represents international and domestic clients in global tenders promoted by the Petroleum Agency and Petrobras for the divestment of onshore and offshore blocks, as well as in complex bidding procedures for the charter of FPSOs, FSRUs, and FSOs. He started his career in 1989 as an in-house counsel for Shell in Brazil. He is the co-head of the oil and gas practice group of the firm and managing partner of the Rio de Janeiro office.

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