

Increase oil revenues, REASONABLY

The heights of the international oil price and the new discoveries in the pre-salt areas have opened debate on just how much the government should increase its revenues and control of the exploratory process in Brazil. The best way to take advantage of the probable gigantic reserves on the Brazilian coast is indeed a question of national interest. What is certainly not of national interest is paralyzing oil exploration and abandoning a model that has been working well for ten years – a model for which Brazil owes its success in obtaining self-sufficiency, the pre-salt discoveries and the prospect of becoming one of the world's main producers of oil.

It was the business model created by the Petroleum Law that permitted the oil and gas industry to grow 300%, and go from 2% to more than 10% of GDP in Brazil. In one decade, the national oil reserves doubled and changed profile along new frontiers and the discovery of lighter oil with higher aggregate value. These new oil reserves could also make Brazil self-sufficient in natural gas: the quantity of natural gas reserves per barrel of oil produced is nearly five times more in the pre-salt reserves than those of the heavy oil reservoirs of the Campos Basin. Thus, it will be possible to solve the supply problem of natural gas to the growing domestic market.

More than 70 companies have participated in the public tenders held by the National Petroleum, Natural Gas and Biofuels Agency (ANP) for oil exploration and production – half of which have been domestic companies. These enterprises are the small, medium and large companies that have helped to develop the highly productive

projects in deep waters, as well as participating in the mature onshore fields that generate income and jobs in some of the nation's poorest regions. Without a doubt, we can boast a successful model, and there is no reason to change it now. What we should do, and must do, is streamline it to meet the needs of this new scenario of the pre-salt reservoirs.

At present, companies that have been granted concession contracts pay, among other obligations, an extra amount based on the production volume from high-yielding production fields. An IBP study for industry authorities shows that the current methodology applied actually distorts the division of oil revenues, since it reduces the percentage of government revenues when the oil price rises. The problem could be solved by changing the calculation base for this extra amount, taking into consideration the profitability of the project and not just the volume produced. With a more streamlined and adequate methodology for this current oil price scenario, the government would be able to capture a bigger slice of revenues without thwarting investments.

If the exploratory risk of the pre-salt reserves is less, the signature bonus that a participating company should pay must also be much higher. The government would receive this value immediately, in anticipation of high revenues. The government would also be covered in the event that the fields of a tendered exploration block were larger than originally expected, since the



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profitability of a project would be the integral part of the criteria for determining the extra windfall amount.

This proposed methodology, which could be decreed by Executive Order, would be valid for future concession contracts in the new pre-salt oil area, and, thus, the rights of companies that already hold contracts would be protected, as has been determined by the National Council for Energy Policy (CNPE) in a resolution that recommended studies to consider this new scenario brought on by the recent discoveries.

If forecasts for the pre-salt area are indeed confirmed, the government would have extra revenues as big as the expectations all of us have for the recent new discoveries. However, it will still take almost a decade until the oil can be commercialized – that is, if the huge financial, technological and human resources that are needed to meet the obvious exploration and production challenges of this new scenario are provided. Before any profits may be obtained from the E&P projects on the pre-salt frontier, investment in the acquisition and rental of equipment that is virtually unavailable on the world market will have to be overcome, including

drilling rigs, pipelines, natural gas lines, refineries, and the training and qualification of the manual labor to meet the demands of the projects.

All of this endeavor will require significant investments, resources captured from both domestic and foreign capital. The last thing we need at this time is regulatory uncertainty and instability, which scares investors. The IBP proposal reconciles increased government revenues while maintaining the current concessionary model. This proposal addressed the more immediate concerns of Brazil while maintaining the transparency of the public tender process for the development of new strategic projects in all the areas of oil potential throughout Brazil.

We must continue with the Bid Rounds to concede exploratory blocks that preserve the stability originally created by the Petroleum Law, which was so important to the development of Brazil in the last ten years, and, thus, continuing to attract the kind of investment necessary to take full advantage of the reserves and reach self-sufficiency in natural gas supplies. For the moment, we only have the promise of wealth. We must make it a reality. There is no point in wasting time now. ■

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