

Brazil's gas law finally enacted

Internationally respected for its Petroleum Law, which has attracted significant foreign investment to the country, Brazil now has a specific law for gas.

by Cassiano Viana



It was about time, given that Brazil now produces around 60 million m³ of gas per day. This exceeds the targets for Brazilian gas supply set in the Plan to Accelerate Gas Production (*Plangás*), which projected a supply of 40 million m³ by 2008 and 55 million by 2010. Petrobras' planned investment in the sector (US\$10.6 billion over the 2009-2013 period, 70 percent higher than the US\$6.2 billion envisaged in the company's 2008-2012 plan) will ensure the further development of the sector.

The Gas Law (Law 11,909) was passed by decree on 4 March, twelve years after the enactment of the Petroleum Law (Law 9,478 of 1997).

Approved in December by the Chamber of Deputies, the new law establishes rules for the treatment, processing, storage, liquefaction, regasification, import, export and commercialization of natural gas, and its transportation via pipelines.

The proposed law, the subject of heated debate since the Bolivian gas crisis broke out in 2005, had been approved earlier in 2008

by the Senate, following wide-ranging negotiations with stakeholders.

"This time lapse between the two legal instruments (the petroleum and gas laws) has an economic cause: natural gas demand was much lower 12 years ago, accounting for an insignificant share of the country's energy supply," explains Marilda Rosado, partner at law firm Doria, Jacobina, Rosado e Gondinho Advogados Associados. (See article at end of this report.)

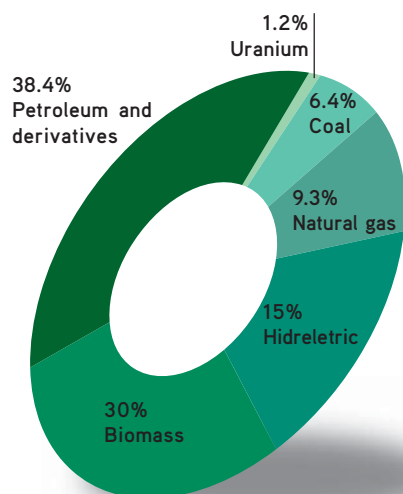
The Brazilian gas market has since developed considerably; hence the need for rules to guide the sector.

Legal framework

The law creates a legal framework designed according to the specific characteristics of the natural gas industry. This clear, stable regulatory framework provides a foundation for rising investment in exploration, production and transport infrastructure.

Gas pipeline transport, for example, is affected significantly by the new law. Recognized as a natural monopoly, the market now operates with stricter and

Brazilian energy



World energy

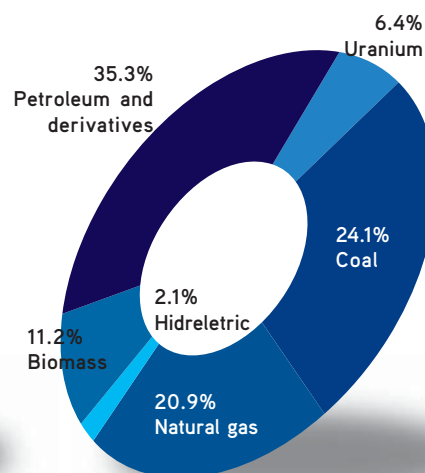
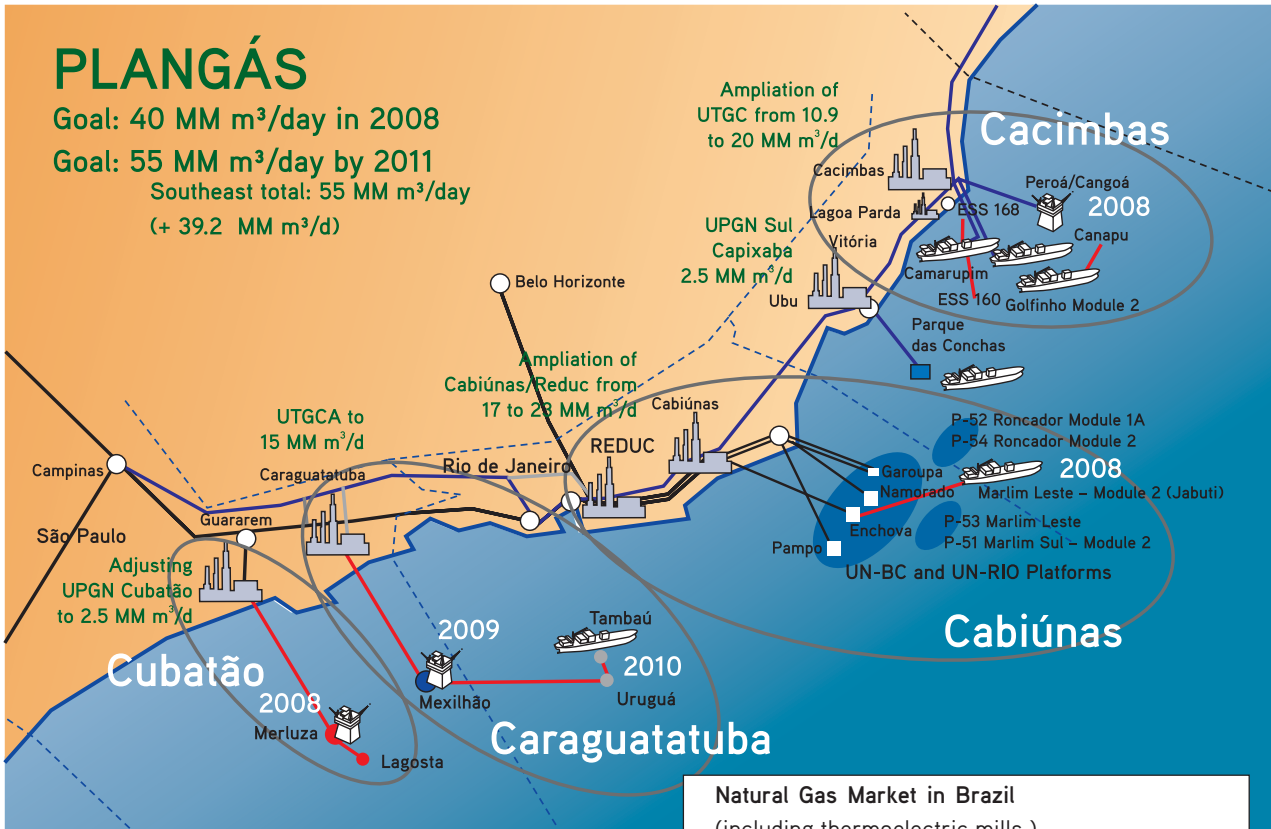


Photo: Keystone

Plangás – Increased Gas Production in the Southeast



more transparent rules. This will help to increase competition, keep prices down, and enable further expansion of the pipeline network. The new law also states that gas pipeline construction and operation must be conducted on a concession basis through public tenders, in which the winning proposal is the one that offers to charge the lowest annual revenue.



Mines and Energy Minister **Edison Lobão** argues that the Gas Law is fundamental for the sector to overcome future challenges. "One of them is to reduce Brazil's dependence on imported gas, which will be achieved by stimulating domestic production, expansion of transport infrastructure and diversification of supply sources," he said.

Another challenge is to increase competition in domestic supply, which depends on stable rules and equal treatment of market players. These conditions, believes Lobão, will enable domestic demand for gas to be met fully in future years.

According to **José Lima de Andrade Neto**, Secretary for Petroleum, Natural Gas and Renewable Fuels at the Ministry of Mines and Energy, the expectation is that the shift from permit to concession mode will usher in a more competitive transportation market. "Competition will spur greater invest-



ment, demanding more investment in infrastructure, which will create a virtuous circle in the sector," he says.

"Creating and passing this law was not easy, but it has achieved something that, at first, seemed impossible: to arrive at a consensus and preserve the interests of all stakeholders, including Petrobras and other companies," comments Álvaro Teixeira, executive secretary of the Brazilian Petroleum, Gas and Biofuels Institute (IBP).

