

## **Market Alert 22/2009**

### **Proposed Changes in Oil Exploration Regulations**

On Monday, 31 August 2009, in what analysts termed as a highly nationalistic move, the Administration announced a new regulation governing the exploration of Brazil's massive new oil reserves. The proposal, which requires approval from the Congress, would confine foreign players only as partners to consortiums run by state-owned Petrobras.

For the past two years, Brazil has made an unprecedented series of deepwater discoveries located some 200 miles off its southeastern coasts of Rio de Janeiro and Espirito Santo State. The new reserves, called pre-salt finds (pre-salt) are estimated at between 50 to 100 billion barrels. The new reserves are more than doubled Brazil's existing proven reserves of 14.1 billion barrels. Although analysts believes that it would take about nine years to bring the new finds into production, the find will transform Brazil as one of the world's largest oil producers.

When exploration and production was opened to foreign players through concession contracts in 1997, foreign companies received all the oils from drilling and pay royalties and taxes to the state and federal government.

Under the new rules, the oil belongs to the government. Petrobras will be the operating company in all of the pre-salt finds. Petrobras can take on foreign partners but will retain 30.0 per cent share in any such drilling consortium and in some cases will be given exclusive rights over the pre-salt fields. Foreign players will then bid to participate in consortiums run by Petrobras. The winning bidders will be the ones that offer the largest percentage of profits to be generated by the oil.

Pre-salt concessions already awarded would be maintained under existing rules, but the remaining 72.0 per cent of the pre-salt area, estimated at 41,000 square miles have yet to be explored and will be developed by Petrobras.

A new state-owned company called Petro-Sal will be created to manage the pre-salt finds. The Administration will also establish a fund with revenues from the new found oil. The fund will be used to finance programs to combat poverty and improve education.

Recognizing the costly development and exploration of the pre-salt, Petrobras plans to issue new shares to increase its capitalization. The actual amount was not revealed by Petrobras, but analysts estimated it to be around US\$50.00 billion.

Analysts expressed their concern over the heavily-controlled regulations exercised over the pre-salt by the government through Petrobras and Petro-Sal. The main concern is that the strong state presence would deter foreign investors, leaving Petrobras to proceed alone with the development and exploration of the pre-salt fields.

The proposed regulation was submitted by the Administration to the Congress marked urgent, which means that the Congress has 90 days to vote on the measure. However, due to the presidential, congressional and gubernatorial elections in 2010, it is unlikely that the exercise would be completed by years end.

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*Source:*  
*Petrobras* <http://www2.petrobras.com.br>  
*Forbes.com* <http://www.forbes.com>  
*Brasilinform Daily*