

## Offshore challenge looms for Petrobras

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As Petrobras prepares for the biggest share issue yet attempted, concerns are increasing about both the offer process and the huge oil project it is set to fund.

At the end of this month, Brazil's national oil company plans to issue an estimated \$75bn in new shares, raising about \$32bn from minority shareholders – the rest will be issued to the Brazilian government in exchange for the rights to 5bn barrels of offshore reserves.

The 5bn barrels are from Brazil's "pre-salt" fields, so called because they are trapped under several kilometres of seawater, rock and a hard-to-penetrate layer of salt.

Early estimates suggest they may hold 50bn-100bn barrels of oil and gas, dwarfing Brazil's current reserves and placing it – by some measures – on a par with Kuwait and Russia in terms of oil producing nations.

It would be hard to overstate the pre-salt's significance. "Brazil," says Ali Moshiri, president for Africa and Latin America at Chevron, the US oil company, "is the future for the oil industry."

But many investors are far from happy about the way the share issue is being handled. And new regulations governing the pre-salt region now before Brazil's Congress have raised concerns about the country's ability to develop the fields efficiently.

Brazil's oil industry has thrived under a concessions system introduced in the late 1990s when Petrobras' monopoly was broken.

Parts of the pre-salt region were put out to concessions before the government understood its potential and are being developed by Petrobras and others including ExxonMobil, Royal Dutch Shell and BG.

Under the new regulations, for all future development of the pre-salt region concessions will be replaced by production sharing agreements. A new state company will be created to oversee development, with a veto over all operational matters; Petrobras will take at least 30 per cent of any consortia formed, will be the lead operating company in all of them and may be granted licences on its own for any field at the government's discretion.

"[This] is a concern for the whole industry," says one person in the industry, arguing that Petrobras' dominant role will also not be good for Brazil. "It is difficult to challenge costs if you have only one operator and also to develop the local [offshore services and supply] industry if you have only one buyer."

The government says the new rules are needed to ensure that the windfall from the pre-salt fields goes to Brazilians rather than to foreign oil companies. But critics say it could achieve its objectives more quickly simply by levying higher taxes on the pre-salt region and worry that ideology – a belief in the benefits of state control – may be taking precedence over pragmatism.

"The idea of a single operator makes no sense at all," says Luiz Orlandi of the IBP, Brazil's oil and gas industry association. "Nobody has yet given me a practical reason [for the new regulations]."

Far from being a privilege for Petrobras, its lead operator status could become a burden.

Its ability to meet ambitious targets under its \$224bn investment programme for 2010 to 2014 is already being questioned.

"The company is being pushed quite hard already with the human resources it has," says Ruairaidh Montgomery, senior upstream analyst for Latin America at Wood Mackenzie in Houston.

"Before the discovery of the pre-salt reserves it had lots of deepwater activities under way ... It will be a challenge to find enough people with the necessary skills."

In light of the recent BP oil rig disaster in the Gulf of Mexico, concerns have also been raised about the dangers of operating at such extreme depths – up to 7,000 meters below sea level – and in untested conditions.

But many analysts agree that Brazil's industry has some of the strictest safety and environmental regulations in the world.

Also, in spite of the onerous regulatory regime being prepared, analysts believe international oil companies cannot afford to ignore what is on offer.

"Brazil is one of the few places with substantial resource potential that has remained open to private investment and, despite the new regulations, the government is not closing the door," says Mr Montgomery.

He points out that BP made an offer for Devon Energy's Brazil portfolio this year "with the full knowledge of these rules potentially coming in".

The economics of pre-salt are "very robust," he argues, adding they are better than those in the Gulf of Mexico. Petrobras says the pre-salt fields would be economically viable at \$45 per barrel – comfortably below today's price of about \$75.

Nevertheless, concerns persist about the assumptions Petrobras has made in terms of the pre-salt's economic viability and – especially – about its ability to lead the region's development on its own.

"When you have more than one operator in different blocks, you get a lot of exchange of experience," says Mr Orlandi at the BPI. "Petrobras is one of the best oil companies around in deep water. But to reject the help of other companies does not make sense."

**Fonte: Financial Times, London, Sept. 15<sup>th</sup> 2010, Companies, online.**