

New challenges: “Pre-salt” and the Production Sharing Proposal for Brazil

**PRE-SALT SEMINARS –
UNIVERSIDADE DE SÃO PAULO**

Humberto Quintas
Brazilian Institute of Oil, Gas and Biofuels - IBP

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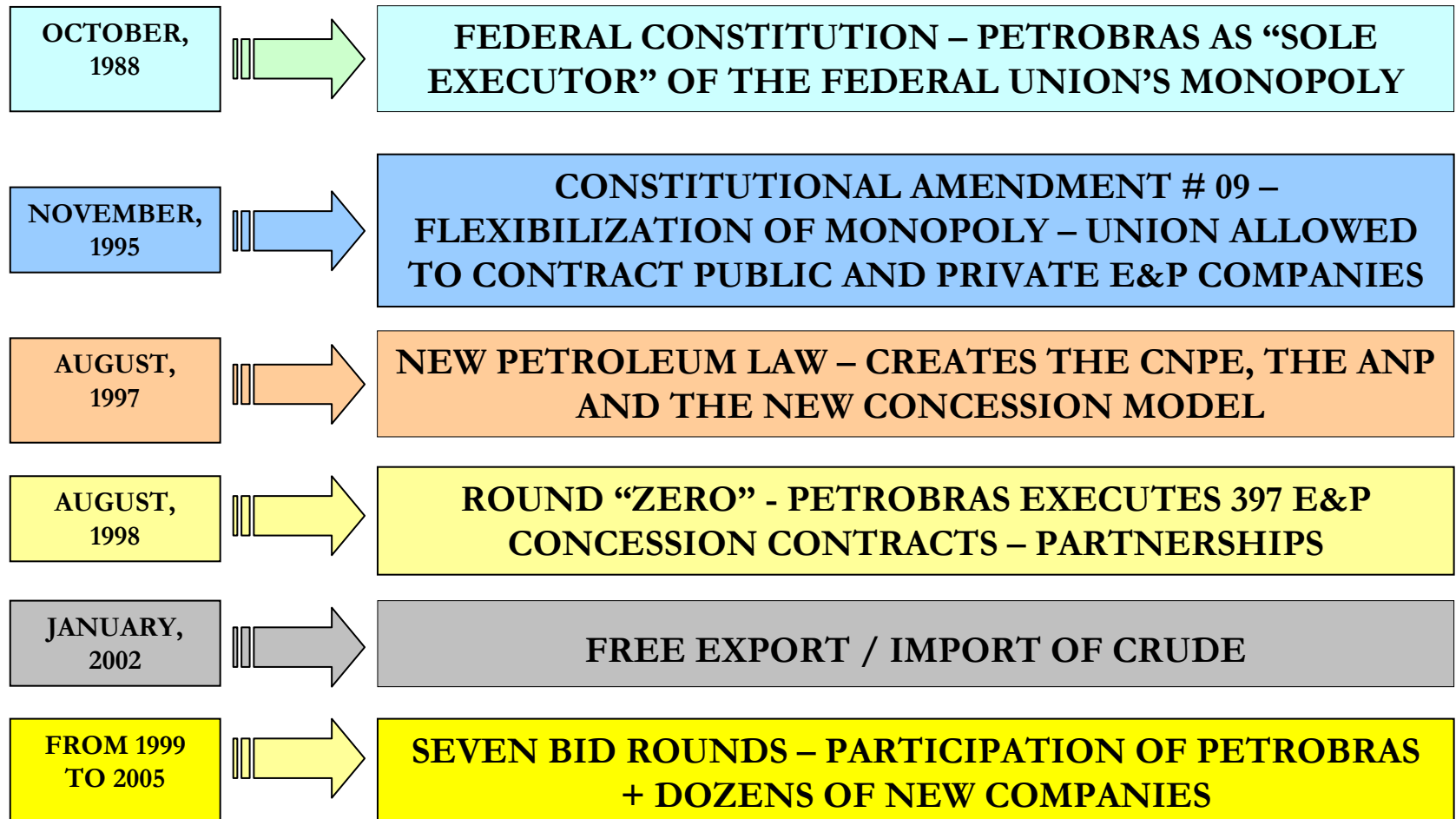


- 1. TIMELINE – RECENT HISTORY OF REGULATION IN BRAZIL;**
- 2. BILLS FOR THE “PRE-SALT”;**
- 3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS”; AND**
- 4. POSITION OF THE IBP - CONCLUSIONS**

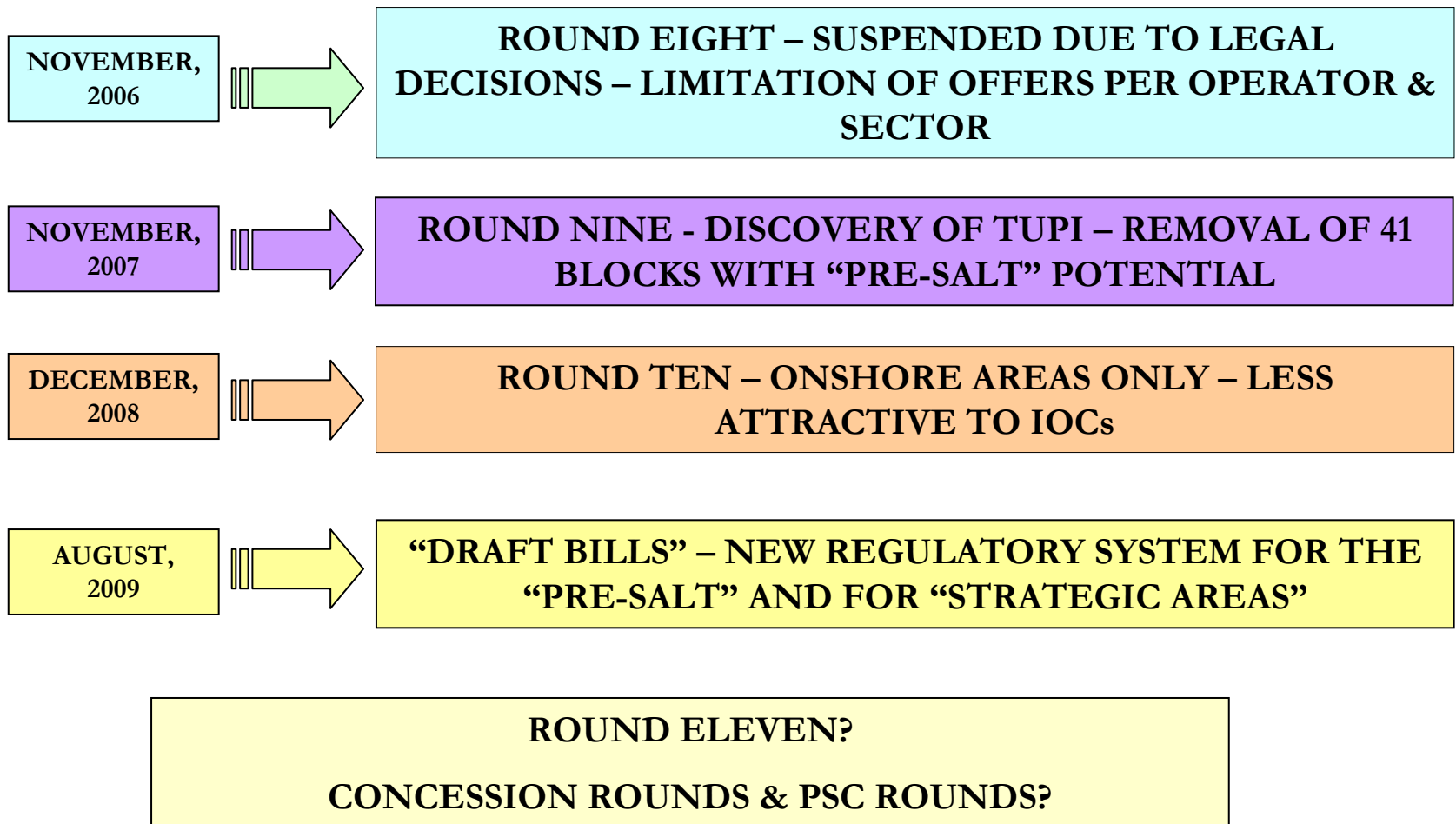


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20 minutes

1. TIMELINE – RECENT HISTORY OF REGULATION IN BRAZIL



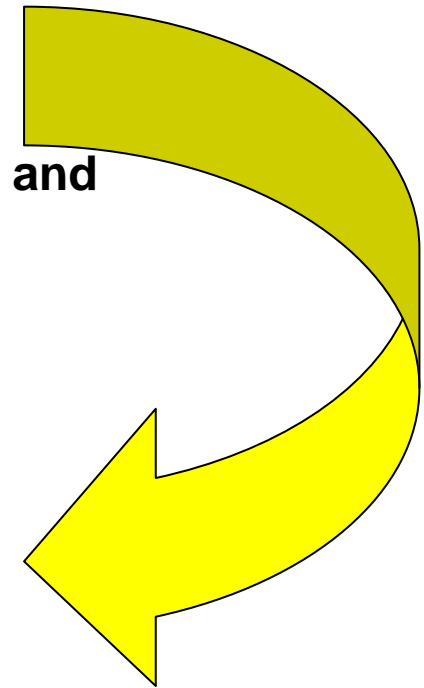
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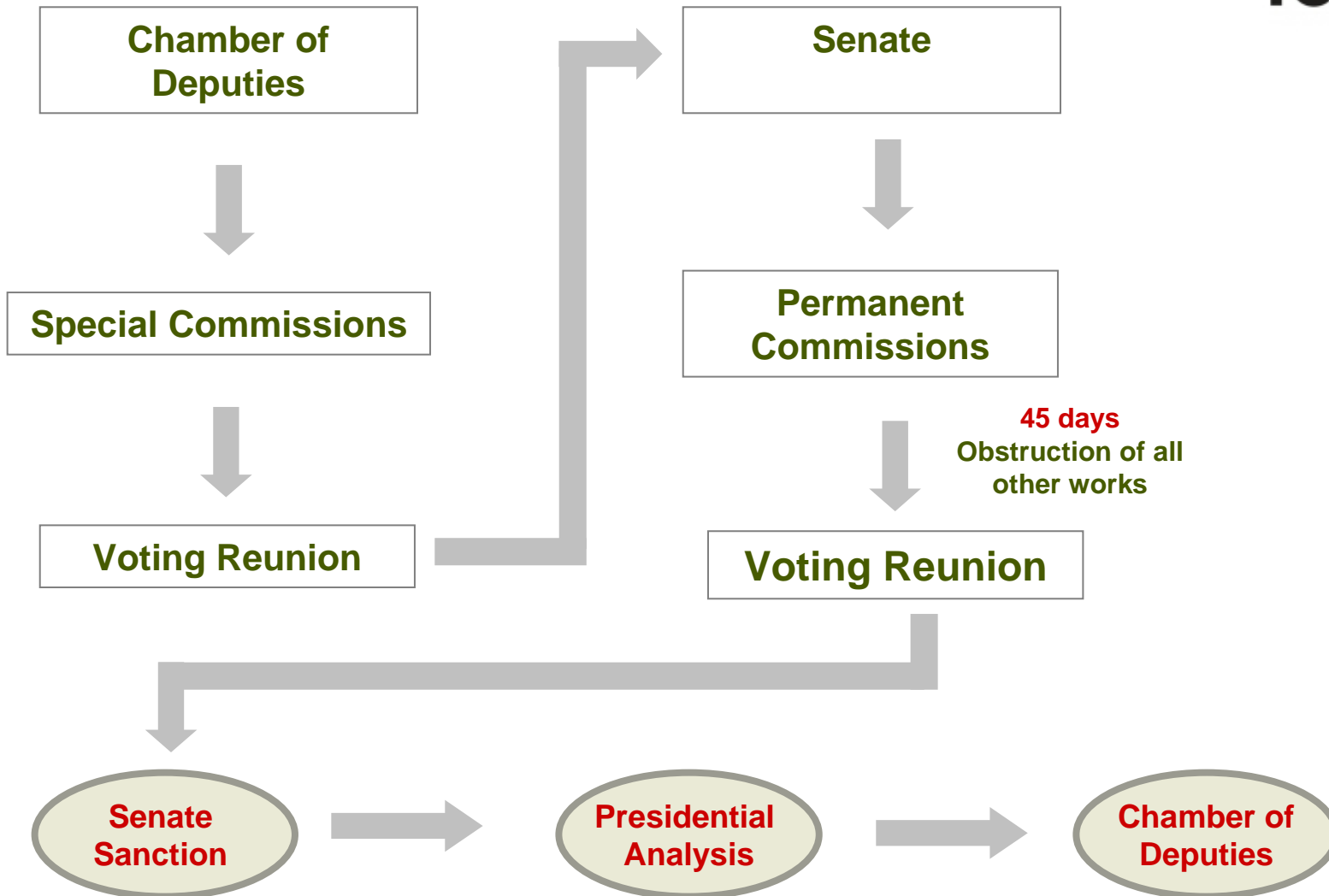
2. BILLS FOR THE “PRE-SALT”

- **BILL 5938/09 – PRODUCTION SHARING REGIME;**
- **BILL 5939/09 – CREATION OF PETRO-SAL;**
- **BILL 5940/09 – CAPITALIZATION OF PETROBRAS; and**
- **BILL 5941/09 – CREATION OF A SOCIAL FUND.**

AFTER APPROVAL BY THE CHAMBER OF DEPUTIES (LOWER HOUSE), BILLS ARE BEING ANALYZED BY THE SENATE (UPPER HOUSE)



2. BILLS FOR THE “PRE-SALT”

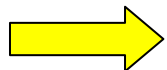
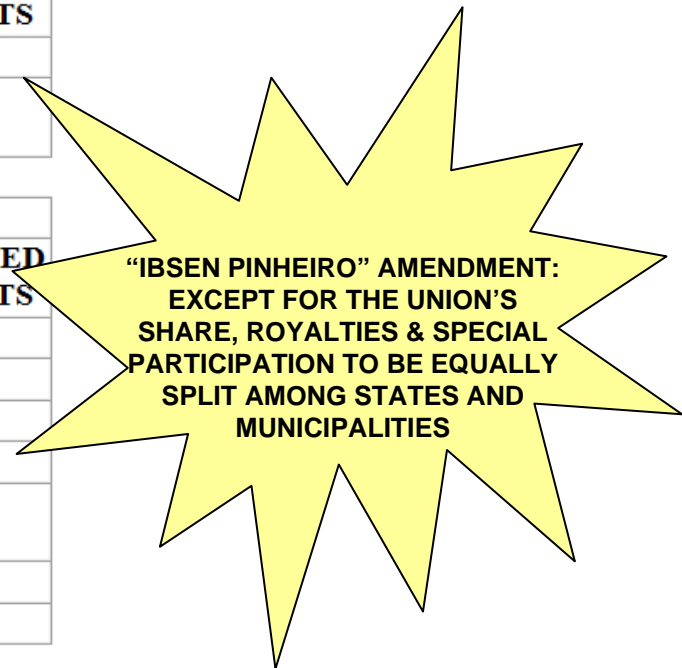


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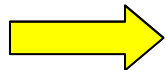
BILL 5938/09 – PRODUCTION SHARING REGIME:

	ORIGINAL TEXT OF BILL	CONSOLIDATED AMENDMENTS
ROYALTIES ALIQUOT	10%	15%
AFFECTS CURRENT CONCESSIONS?	NO	NO

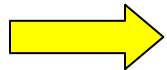
DESTINATION	ORIGINAL TEXT OF BILL	CONSOLIDATED AMENDMENTS
Producing States	26,25%	26,25%
Producing Municipalities	26,25%	18%
States Fund	8,75%	22%
Municipalities Fund	8,75%	8,75%
Municipalities impacted by loading and offloading	8,75%	5%
Navy	17,5%	8%
Ministry of Science & Technology	12,5%	12%



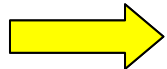
Changes destination of royalties and special participation for concessions;



Constitutionality issues – Article 20, Paragraph 1st of the Federal Constitution;



Huge loss to producing states – Rio de Janeiro: 96% reduction in collection; and



FOCUS ON ROYALTIES - SACRIFICING IMPORTANT TECHNICAL DISCUSSIONS.

3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES



- Production sharing system to apply for “Pre-salt” contracts; current concessions to be preserved;
- New public company (Petro-Sal) - Control/monitor operations; “veto powers” on Opcom;
- Petrobras to operate all blocks, always having a minimum 30% interest;
- No competition in some areas; government to directly award contracts to Petrobras;
- Some blocks to be subject to public bids; Petrobras to have additional rights to participate in bidding processes to increase its own interest; and
- Petrobras will not be able to assign interests to other companies;

3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES



“PRE-SALT AREAS” & “STRATEGIC AREAS”

- “Dangerous” assumption: that the “Pre-salt” is always more attractive than the “Post-salt”;
- “Pre-salt” blocks may have reservoirs in multiple layers/depths; and
- “Strategic Areas” – lack of definition, anything may be “strategic”.

3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES



SOLE OPERATORSHIP (ARTICLE 4)

- Petrobras will be the sole operator of blocks under the Production sharing regime; and
- Articles 4, 10, III, (c), and 15, (IV) - Petrobras will have a minimum share of 30%.

DIRECT AWARD TO PETROBRAS (ARTICLE 12; BILL # 5941/09)

- Direct award of areas to Petrobras without a bidding process, based on “public interest”; and
- Petrobras may elect to participate in the bids to increase its minimum granted participation (of 30%);

3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES



WHAT IF...

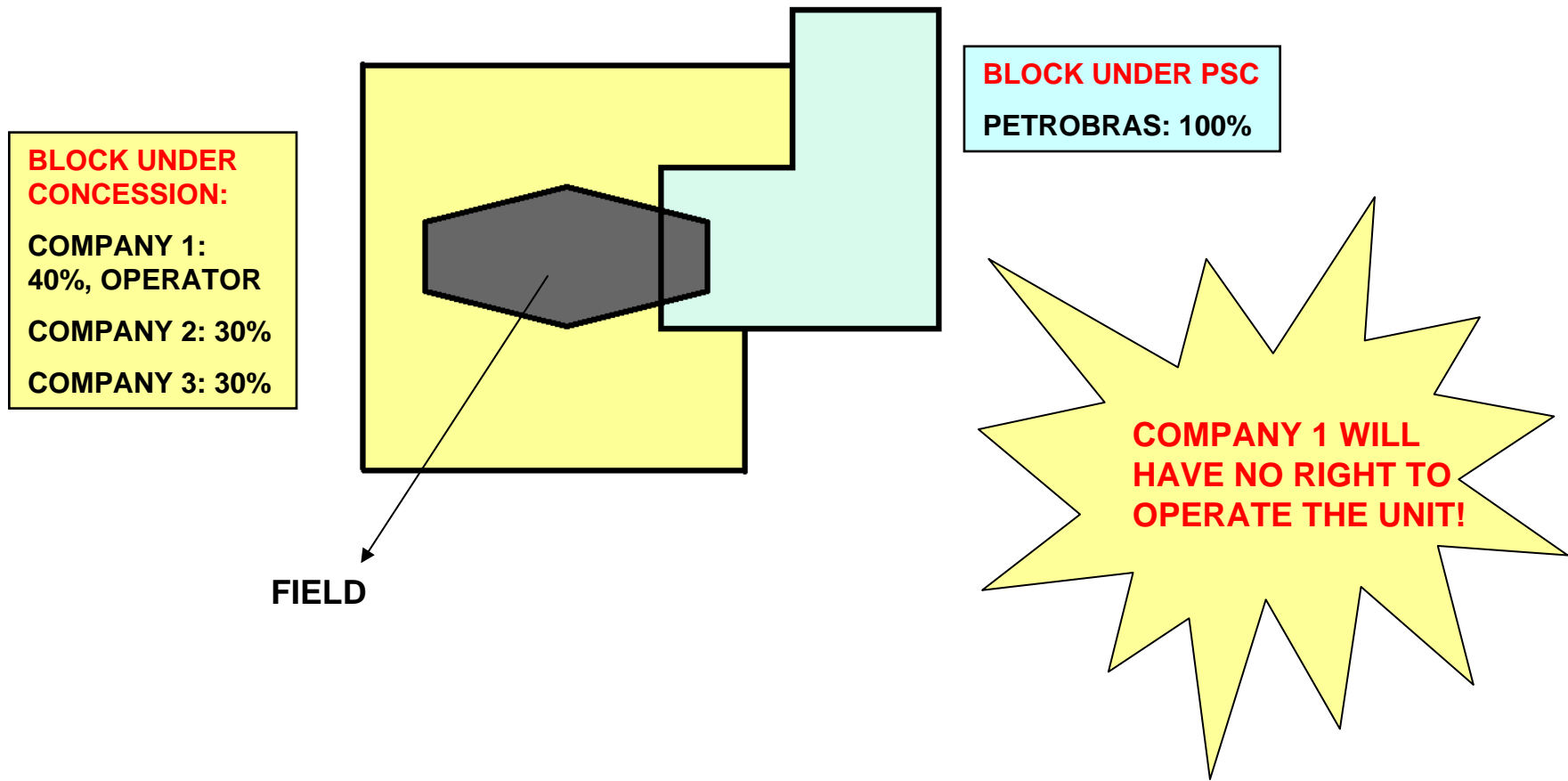
- Operator violates the regulations or fails to act according to the “Best Practices of the Petroleum Industry? How will the ANP be able to exercise its regulatory authority and eventually destitute the (sole) operator?
- A concession agreement’s discovery extends to an adjoining block under the production sharing regime? How will a Party in the concession’s side be able to operate the unit if there is a sole operator (on the PSA’s side)?

MOREOVER...

- Procurement: a single company is almost as dangerous as a single contractor;
- Petrobras and other OCs: decrease in interchange of concepts; and
- “Pre-salt” exploratory pace will depend on Petrobras’ resources.

3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES

HYPO # 1 - SOLE OPERATORSHIP



3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES



PRODUCTION SHARING BID ROUNDS (ARTICLES 13, 15)

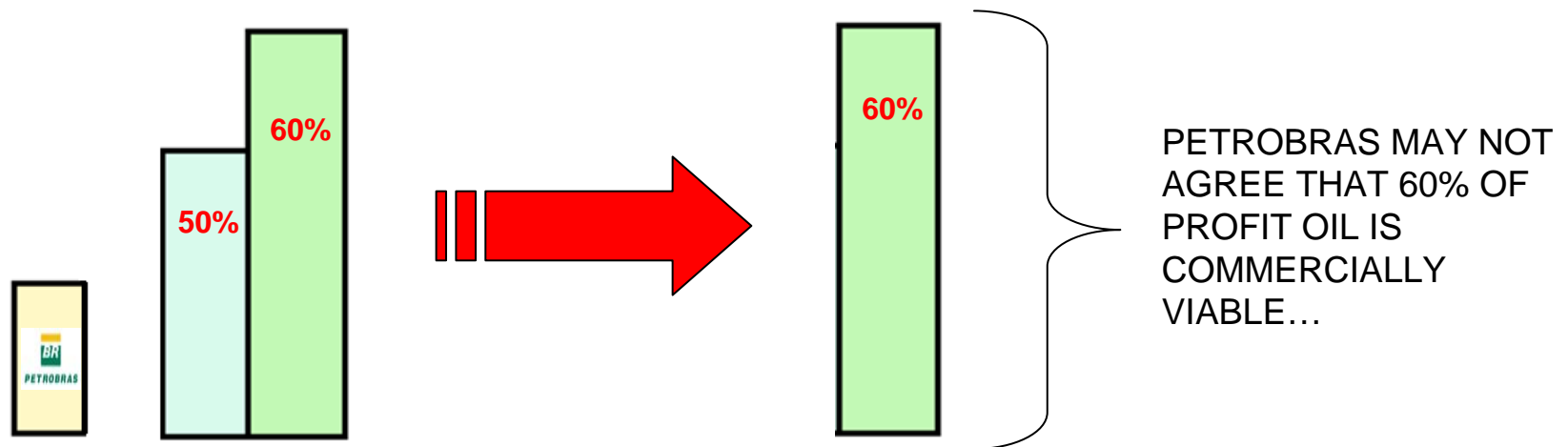
- ANP to organize tenders to define the companies that will participate (as non-operating Parties) with Petrobras and Petro-Sal in the “Pre-salt” and “Strategic Areas” projects;
- Company offering the largest profit oil to the Federal Government will win the bid;
- Bids to also include a fixed bonus payment; and
- Petrobras to keep a 30% interest always.

MANDATORY CONSORTIUM (ARTICLES 15, IV, 19, AND 20)

- In areas for which there will be bid rounds, the winning company or group of companies will have to form a consortium with Petrobras and Petro-Sal.

3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES

HYPOTHESIS # 2 – DIRECT AWARD vs. PSC BID ROUNDS



- Different companies compete for the right to be Petrobras’ non-operating partner;
 - “Blue Company” offers 50% of Profit Oil to the Union; and
 - “Green Company” offers 60% of Profit Oil to the Union.
- “Green Company” is the winner;
 - Petrobras is bound by the winning offer; and
 - Petrobras’ position is not taken into account – eventual differences on project commerciality.

3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES

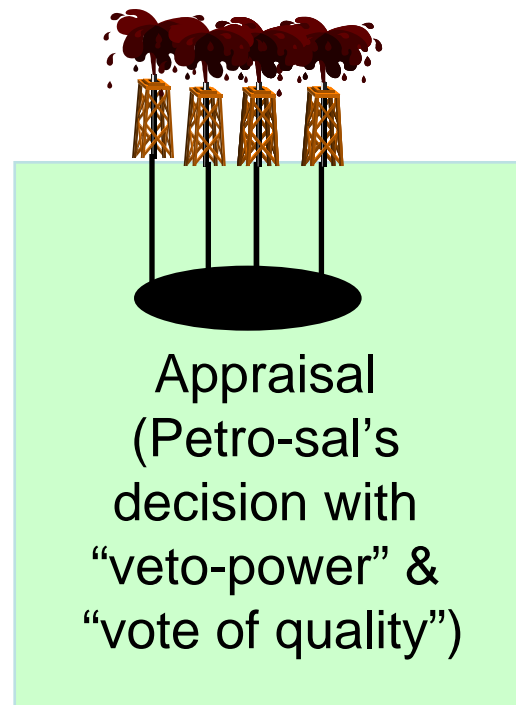
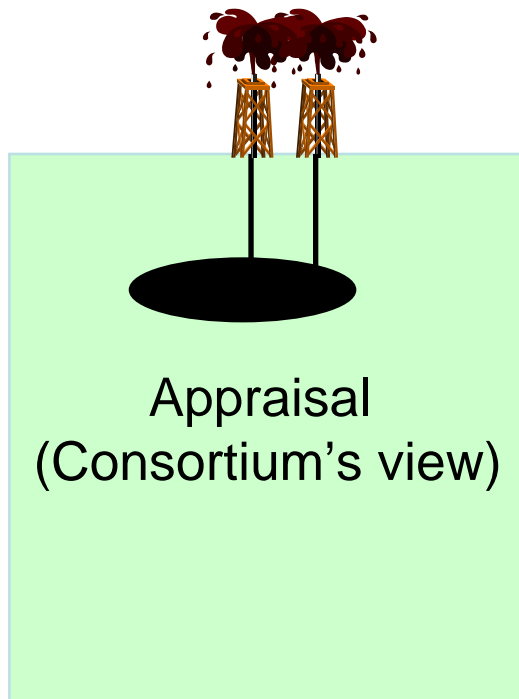


“VETO POWERS” BY PETRO-SAL (ARTICLES 23, 24, 25)

- Petro-Sal will have the ability to nominate half of the Operating Committee’s member plus its president; and
- Petro-Sal will have “veto powers” and “vote of quality”.
 - Disproportional powers: no investment or assumption of risks by Petro-Sal;
 - Potential conflict of interests with the ANP;
 - Threatens against the predictability of rules;
 - Mixes questions that should be technical with decisions that might be political; and
 - Unitizations that affect existing concession agreements may impact Development Plans of the units – violation of “Acquired Rights” and “Perfect Legal Acts” (constitutional principles).

3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES

HYPO # 3 – VETO POWER & VOTE OF QUALITY



**OR VICE-
VERSA...**

3. BILL 5938/09 – “PRE-SALT” & “STRATEGIC AREAS” – CONCEPT & ISSUES



UNITIZATION (ARTICLES 33 TO 41)

- Reservoirs that extend to free acreage will have Petro-Sal to execute the Unitization with the concessionaire of the adjacent area;
- Unitization Agreement will be conditioned to the approval of the ANP;
- In case there is no consensus regarding the unitization agreement, the contract for the entire block may be canceled; and
- No solution on different contractual obligations such as Local Content.

4. POSITION OF THE IBP - CONCLUSIONS



- **There was no need to change legislation to maximize production control and collection of revenues;**
- **Notwithstanding, IOCs work with several E&P regimes, including Production Sharing;**
- **Discussion on royalties' destination may deviate attention – other technical issues exist;**
- **Key issues of the Bills (according to the IBP) are:**
 1. **Structure of Operating Committee and Petro-sal's powers;**
 2. **Petrobras as the sole “Pre-Salt” Operator;**
 3. **Direct award of contracts to Petrobras; and**
 4. **Unitization – Preservation of rules.**
- **New regulation may generate conflicts of legality and constitutionality.**

Thank you!

Obrigado!



humberto.quintas@dvn.com

steering@ibp.org.br