

Offshore Brazil Dinner Review

November 2011, London

As part of its energy talk series, **Access for Women in Energy** (AccessWIE), organised a roundtable dinner discussion on offshore Brazil. The event took place on 30 November 2011 in London. The dinner was hosted by Norton Rose, a leading global law firm, in collaboration with Deloitte, a multinational professional services network.

Participants came from a variety of institutions including: Aegis, Baker Hughes, Centre for Global Energy Studies (CGES), Deloitte, DLA Piper, Eversheds, MEC International Ltd, Norton Rose, Oil Council, Opus Executive Partners Ltd, Petrobras, Petrofac, Royal Bank for Scotland (RBS) and Windsor Energy Group (WEG).

Dr Carole Nakhle, Director of AccessWIE, chaired the discussion, which focused on oil and gas in offshore Brazil, and addressed issues such as the challenges and opportunities in the sector, the role of Petrobras, energy resource management, energy financing, the opportunity of shale gas in Brazil, regulatory framework and country risk.



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Key Highlights

- Brazil has the potential to become a leading non-OPEC oil producing country. The President of Petrobras, Jose Sergio Gabrielli, claimed recently that Brazil will become the largest non-OPEC oil producing country in the world by 2021. This ambitious target is justified, in theory, by the large discoveries that Brazil made in its pre-salt basins.
- There is no guarantee, however, that big discoveries are easy to develop. See for instance the difficulties that the Kashagan field in Kurdistan has been experiencing since its discovery more than 10 years ago. The field is described as the largest world's oil discovery in the last 30 years. To date, production hasn't started yet.
- There exist significant difficulties associated with attempting to rapidly bring oil discoveries online – from political, economic, to social and environmental.
- The danger of the oil curse also threatens Brazil, which is one of the most inequitable countries in the world. There is the risk that these inequalities could be further exacerbated if the oil industry is mismanaged as it was in Nigeria. There exists a real danger of Dutch disease.
- Little private investment in Brazilian upstream oil sector exists as there is in Iraq, for instance. There seems to be a relative lack of indigenous companies that are at present capable of entering the sector. The risk exists that full industry competitiveness will never be reached.
- The fortunes of these indigenous companies could perhaps be bolstered by giving them preferential rates to take smaller shallower rights that larger companies cannot develop due to the lack of economies of scale, as has been applied in Nigeria.

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- This may be the only way to develop more competition amongst Brazilian operators because sub salt drilling is very expensive and risky, and rules out many smaller companies.
- Petrobras is embarking on a very ambitious drilling plan: to increase its drilling from 200 to 1000 wells per year. This would break every record ever recorded in the industry. Brazil must rapidly grow its workforce from 100,000-200,000 to 1 million if the country hopes to achieve its ambitions. Furthermore 8-10 very large floating production units will need to be used per year. The global supply of such technology and expertise may simply not be able to cope.
- Petrobras had to close some its businesses around the world in order to focus on its pre-salt developments, which are putting substantial pressure on the company's resources.
- Resource nationalism comes in many forms – from tightening the fiscal terms to completely nationalising the industry. The more a system moves towards the latter, the more it restricts the access to technology and capital that IOCs are able to bring. If Brazil ends up like Iraq in terms of production potential, investors should expect a further tightening of the fiscal frameworks in Brazil.
- If Brazil's oil potential is realised, many questions are left to be answered - how OPEC will react, especially as other countries like Iraq, Kazakhstan and West African nations, come onstream. What impact will that have on the oil market and oil price?
- Although sub salt drilling has been successfully managed for many years around the world, a 'Macondo' type event is not inevitable. See the reaction to Chevron's spill.
- Petrobras experiences a regulatory framework not exactly at European levels of transparency and integrity, yet not truly Latin American either.
- Petrobras deserves to be lauded for its role in helping Brazil to catch up with and imminently surpass the size of the British economy to become the world's sixth largest. It is one of the most admired oil companies since the 70s – an NOC which flourished especially following its co-operation with the leading IOCs.
- Petrobras is not merely an inward-looking company which is seeking to solely develop Brazilian natural resources. The company has in fact earmarked \$16 billion for overseas investment.
- There remain ambiguities about how oil related finance will play out with regards to operators in Brazil - Petrobras included.
- Service contracts are not suitable for high risk/high cost exploration.
- It is estimated that after graduating, a person attending the Petrobras university can expect to be on a platform within 3 years.
- There exist programmes within the organisation to try and keep these skilled employees at Petrobras.
- There are still a sizeable number of expats who are hired at Petrobras because there is a shortfall in local sufficiently skilled labour.
- There are no problems with getting money out of Brazil, as we have not seen any sort of capital flight amongst MNCs since they started drilling in Brazil.
- There is a worry that the State control of Petrobras is creeping from 40% up towards 48% in recent years. But powerful NOCs are seen to be able to exert more influence on national governments as they grow in market capitalisation.
- Brazil should look to the examples of Norway, Sweden and Canada to see how these problems might be overcome. In order to avoid the oil curse, Brazil should not focus only on the hydrocarbons and instead develop a whole service industry around them.
- Host country prices should not be favourable compared to the rest of the world - a truly free market keeps indigenous companies competitive and on their toes, and does not put pressure on the economy.

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- Effective oil and gas production does not come without concomitant investment in infrastructure. How much this infrastructure is relevant and usable to the majority of local populations is often dubious.
 - Brazil presents the international oil service industry a great opportunity. Haliburton considers the country as one of its two key focus areas – the other one being shale gas. Energy access is increasing but technologies are falling into despair. Ethnographic research methods are particularly suited to understand this.
 - There needs to be an indigenous supply chain
- whereby wealth, assets, a sense of creativity and enfranchisement accompanies investment in the process. The example of the North Sea was highlighted as a model for such efforts. This idealism is tempered somewhat by the pervasive belief in the industry that "in business profit is everything, all else is philosophy".
- All of this fits in with a battle of the giants narrative between Brazil and China, as Brazil will no doubt be able to increase its geopolitical clout in line with its increase in hydrocarbon production. The extent to which this will materialise is anyone's guess.

Access for Women in Energy (AccessWIE) establishes a community of practice, offering women a peer-group platform to meet with their contemporaries both female and male in the private and the public sectors across the world of energy.

AccessWIE engages its members in regular informed debates on global energy related issues. These are usually held on a quarterly basis and include seminars, business meetings and roundtable discussions to address strategic issues involving energy globally. Our central aim is to support the development of women in the energy sector – across the whole supply chain related services and all sources of energy: from oil, gas and coal to renewables and nuclear.

AccessWIE was founded in 2007 by Dr Carole Nakhle, who is the Chief Executive Officer of Crystol Energy. The group is co-chaired by Lady Judge (The Hon. Barbara Thomas), Chairman Emerita of the UK Atomic Energy Authority, and Lord Howell, President of the Royal Commonwealth Society and of the UK Energy Industries Council.

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