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Brazil's Onshore Oil, Gas Sector Faces Challenges

As Brazil's offshore segment flourishes, onshore opportunities have not gained much attention. But the Brazilian government is working to make its onshore assets more attractive.

By Brunno Braga, Contributor Brunno Braga, Contributor Fri, 04/13/2018 - 10:09



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As Brazil's offshore segment flourishes, onshore opportunities have not gained much attention. But the Brazilian government is working to make its onshore assets more attractive. (Source: Shutterstock.com)

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RIO DE JANEIRO—Brazil's 15th bidding round was considered a hit, with the Campos Basin's ultradeep water luring supermajors such as ExxonMobil, Statoil, Chevron and BP.

The round raised roughly \$2.4 billion, but the onshore story was different.

None of the 21 onshore blocks offered in Brazil's latest bid round were acquired, showing the country still has work ahead to make onshore areas more attractive.

Despite the hydrocarbon potential of Brazil's sedimentary basins, which is estimated to produce roughly 500,000 barrels of oil per day (bbl/d) according to Brazil's Energy Ministry, the status of onshore production raises doubts about its future. Currently, onshore output accounts for only 8% of Brazil's total oil and gas production.

Onshore activities in the country face stiff competition from other South American countries to lure investments from oil companies. For example, Argentina's giant onshore Vaca Muerta Field has attracted interest from investors. According to the U.S. Energy Information Administration (EIA), Vaca Muerta makes up about 60% of the country's 27 billion barrels of technically recoverable shale oil reserves, ranking it as the fourth largest shale oil reserve in the world.

Brazil's onshore output has been declining at a rate of about 20% annually since 2011 as investment has fallen, according to Anabal Santos Jr., executive secretary of the Brazilian Association for Independent Producers of Oil & Gas (ABPIP). In 2017 onshore production in Brazil was roughly 127,000 bbl/d compared to about 180,000 bbl/d about 10 years earlier.

"If we keep doing nothing to change that, onshore activities will be ended in Brazil within three years," Santos said.

He mentioned that regulatory aspects, such as tough environmental licenses, decommissioning rules and local content requirements, pose some risks for companies that are potential investors in Brazil's onshore segment. "Brazil's government treats onshore activities and offshore activities at the same level. The current regulatory process ignores the fact that those activities have their own characteristics so they need to be treated differently in terms of local content requirements, environmental licenses and the commercialization rules for the oil and gas extracted," Santos said.

However, one of the greatest opportunities today for the onshore segment is found in the areas to be sold by Petrobras, according to the member of ABPIP.

The Brazilian major has said that presalt activities are its main focus and since 2016 the company has been divesting assets, including selling 71 onshore blocks in five northeastern states. This process started in early April 2018, and it is expected to conclude by the end of the year.

"The sale of Petrobras' onshore fields is a very important measure that can boost onshore activities in the country," Santos said. "The lack of interest for onshore blocks in the 15th Bidding Round was because companies are waiting for that and see them [as] more interesting than the other onshore fields located in new frontier areas."

Yet, this does not necessarily guarantee investments in mature onshore fields. It depends on the terms, agility of Petrobras in the asset sale process of the assets and buyers' commitment to increase investments.

Decio Oddone, head of Brazil oil regulator ANP, said Brazil's government is working to make the country's onshore sector more attractive for companies and investors. In 2017 the current administration launched the Onshore Exploration and Production Revitalization Plan, which combines incentive measures, an onshore rounds schedule, local content rule exemption, tax cuts and a policy supporting small producers.

Oddone said Brazil's administration is evaluating whether to end auctions of onshore areas in the country. "The idea is to make all onshore blocks available for purchase by the oil companies at any time," Oddone said during an event in Rio de Janeiro in early April.

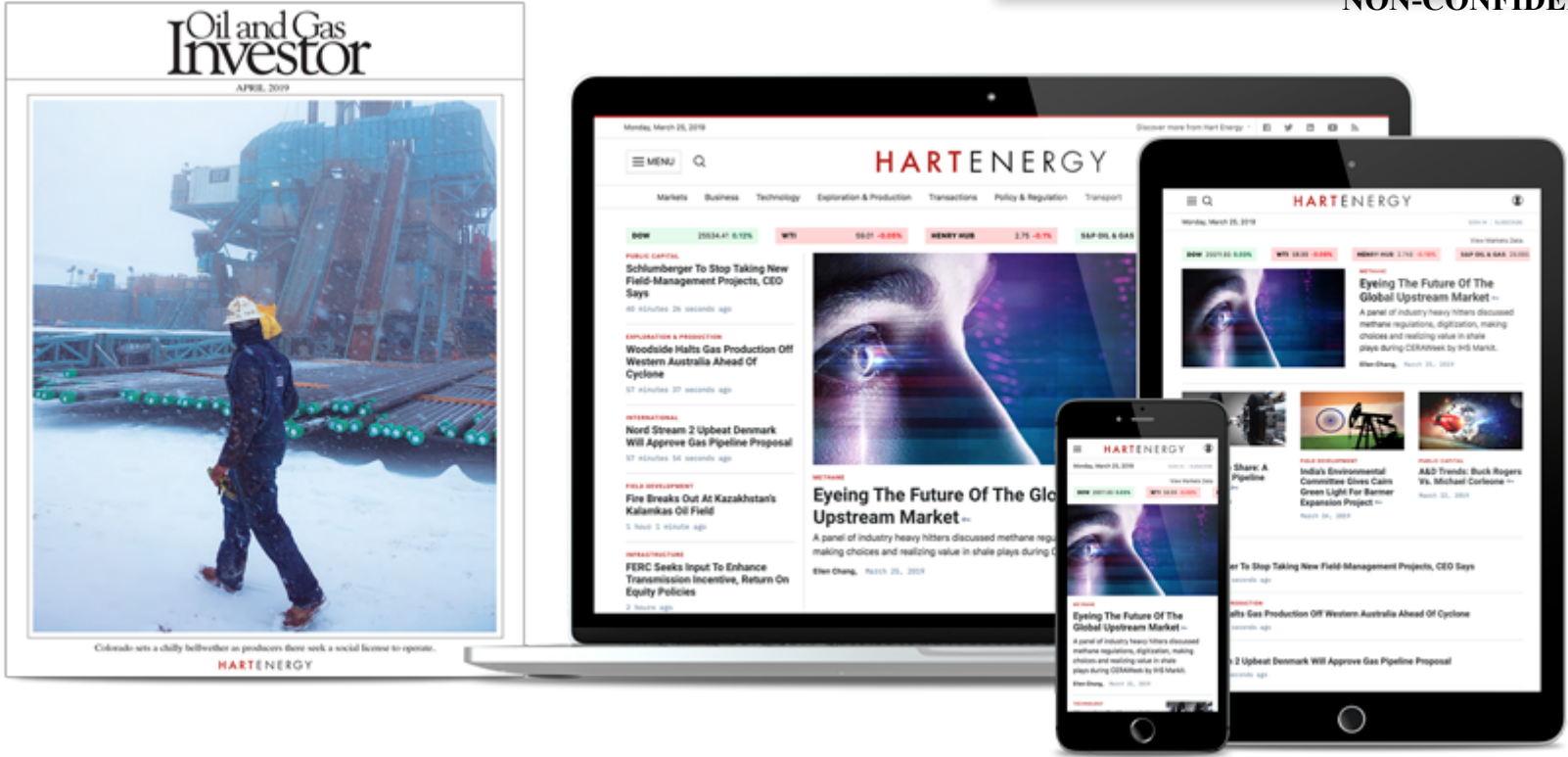
Despite all the problems, Santos said the current administration is committed to giving Brazil's onshore segment hope.

"I have been talking to ANP and Brazil's Energy Ministry members to establish a set of good policies and those conversations are doing very well," Santos said.



Brunno Braga

Brunno Braga has led several magazines serving various industries including logistics, foreign trade and energy. He worked as editor-in-chief for the Foreign Trade Chambers Federation for 10 years.



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SBM did not disclose terms. The structure is designed to produce 180,000 barrels of oil per day, and have a minimum storage capacity of 1.4 million barrels of crude oil, SBM said.

6/25/2019

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