

Brazilian Wave

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THE 14TH ROUND



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Written by the team
at Westshore do
Brasil.

[chartering@
westshore.com.br](mailto:chartering@westshore.com.br)

Designed & created
by Omar Darian

[omar@
westshore.com.br](mailto:omar@westshore.com.br)



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WEEKLY MARKET UPDATE

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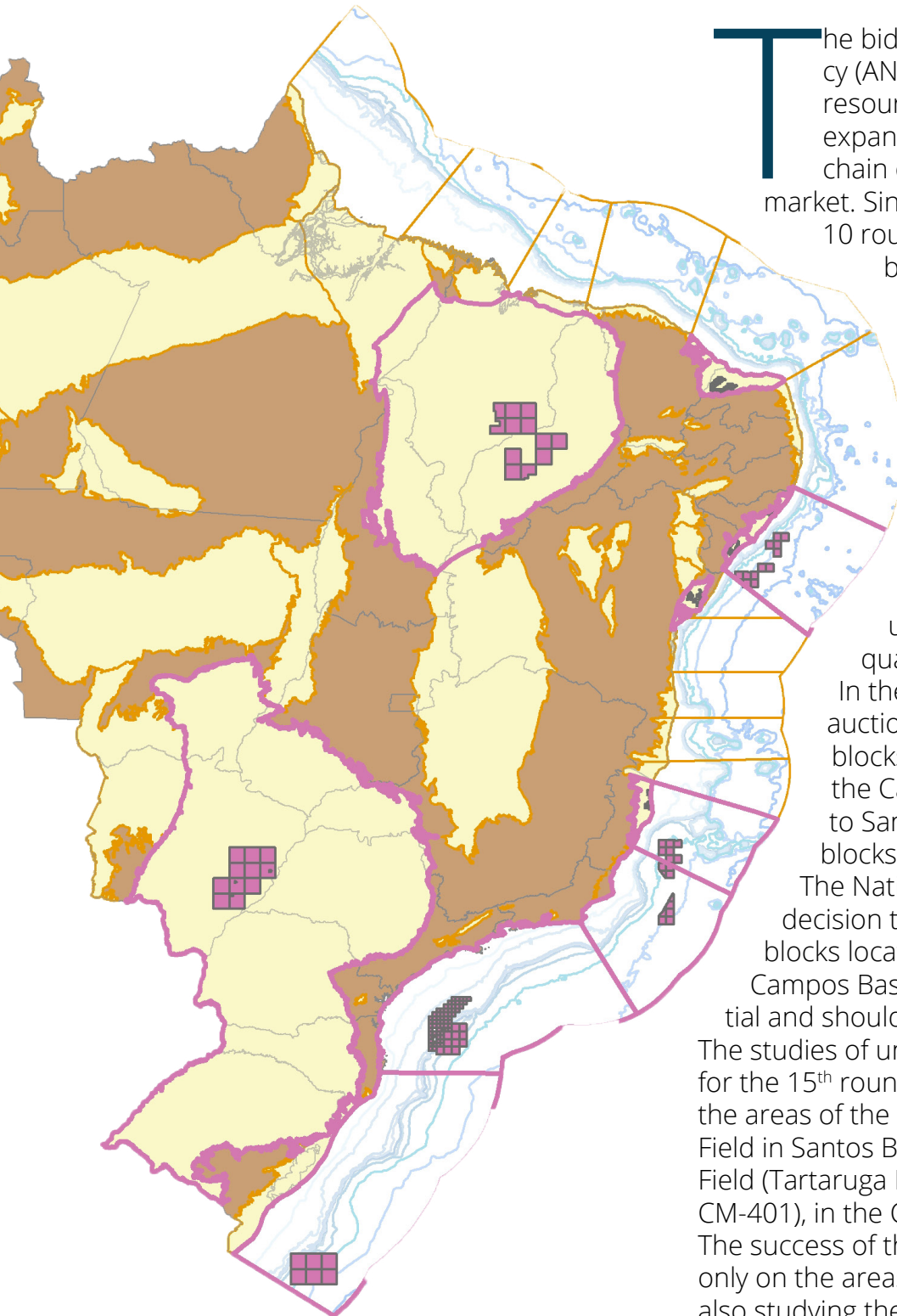
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- VESSELS AVAILABILITY LIST

Report written, designed and created by the Westshore do Brasil Team. Images are merely illustrative and were taken from the internet.

BIDDING ROUNDS

What to expect from ANP's next round of bids and how new local content regulations may impact the auction

By Joana Rodrigues, Shipbroker



The bidding rounds promoted by the National Energy Policy Council (ANP) excites the oil and gas industry in Brazil as resources are invested in technological development, expansion of geological knowledge and in the chain of goods and services that will be able to enter the market. Since 1998, after the breakdown of Petrobras, 10 rounds for offshore blocks were carried out between the 9th and 11th round, which unsettled the market, as well as the result of the last round in 2015.

Two new bidding rounds will heat up the market this year. The 14th round of oil and gas blocks, under a concession regime and the 2nd round of pre-salt areas, under a production sharing regime, are scheduled to take place in the third quarter of 2017.

In the 14th round, the government will auction 111 offshore blocks, being 12 blocks in Sergipe-Alagoas, 10 blocks in the Campos Basin, 07 blocks in Espírito Santo, 06 blocks in Pelotas and 76 blocks in Santos in shallow waters.

The National Energy Policy Council (CNPE) decision to include 10 ultra-deep water blocks located in the northern portion of the Campos Basin, increased the auction's potential and should attract more investors.

The studies of unitized areas in the Pre-salt region for the 15th round of bids should focus initially on the areas of the Gato do Mato (SM-518), Sapinhoá Field in Santos Basin, and the Tartaruga Verde Field (Tartaruga Mestiça Reservoir, former Block CM-401), in the Campos Basin.

The success of the new auctions does not depend only on the areas offered so the government is also studying the flexibilization of the local content regulation.

The proposal prepared by the Ministry of Mines

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obras' monopoly,
out. The 5-year gap

and Energy (MME) and the Ministry of Industry, Foreign Trade and Ser-
vices (MDIC), was an attempt to find a way between the requests of the
Oil Companies by reducing the current demands and the strong pres-
sure of the National Industry for changes in the local content.
In the exploration phase, there will be a minimum of 18% for the na-
tionalization of assets and services. Compared to previous biddings, for
example in the 13th round, the minimum required was between 37% and

51% for the nationalization of assets and services.
Still in order to gain the support of the Oil Compa-
nies, the government accepted requests made by
operators and postponed for 20 years the Special
Customs Regime for the export and import of goods
and services for Oil and Gas. The Repetro will have
its validity extended to 2039.

Another important fact that will influence the partic-
ipation of oil companies is the postponement of the
drilling deadlines for the blocks awarded in the 11th
round. The extension of the deadlines for complet-
ing the exploratory commitments gives the opera-
tors the possibility to invest in other projects.

Although no oil operator has yet expressed their
real intentions to participate in the auctions, we
believe that the majors Shell, Total, Statoil will make
their bets, thus continuing the investments these
companies are making in Brazil.

14TH ROUND

111 OFFSHORE BLOCKS

12 SERGIPE-ALAGOAS

10 CAMPOS BASIN

7 ESPIRITO SANTO

6 PELOTAS

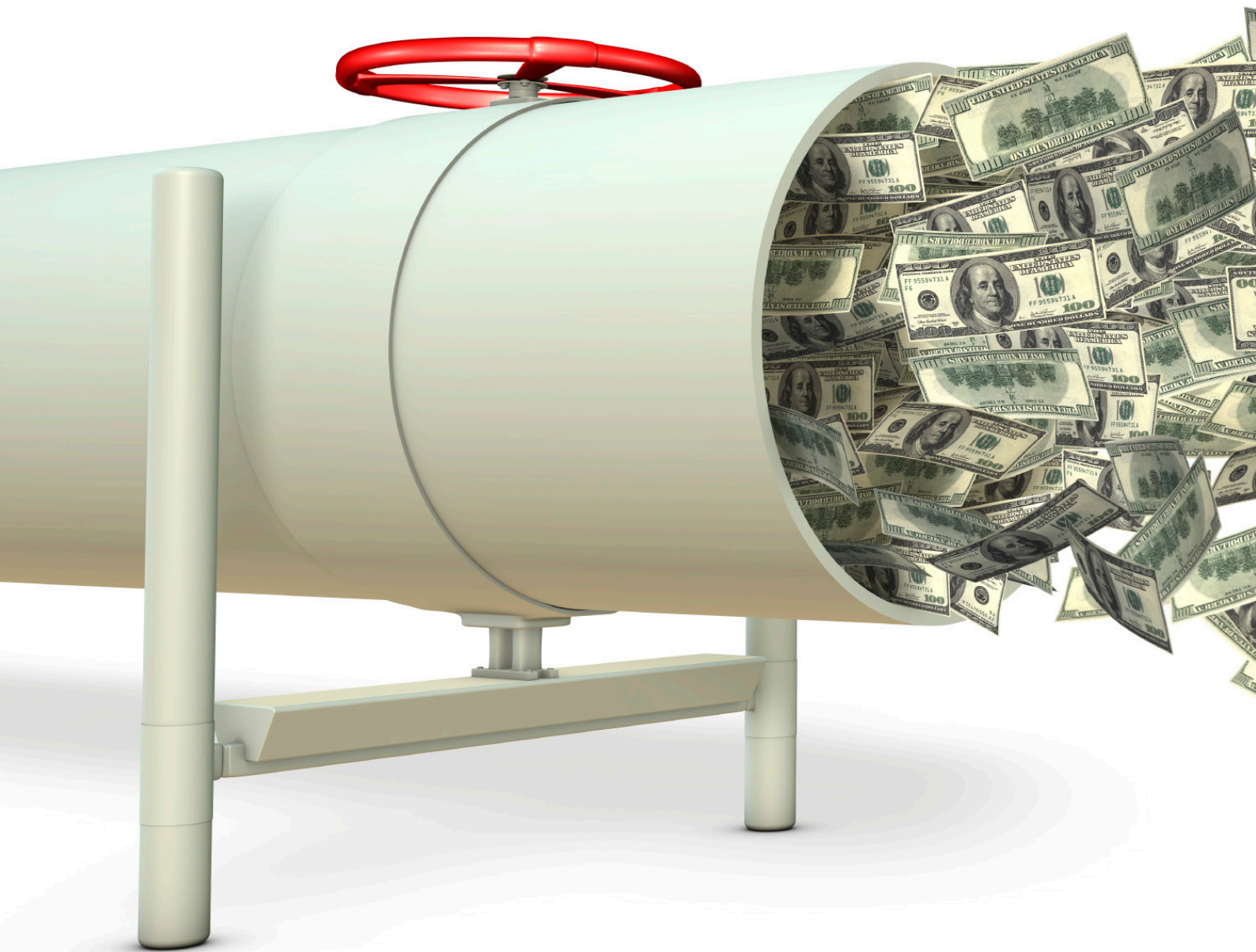
76 SANTOS SHALLOW WATERS

10 ULTRA-DEEP WATER BLOCKS



KEY MOVES OF LARGE O&G PLAYERS IN BRAZIL

While the market watched Petrobras hit the breaks in new investments in the last couple of years and make an important progress with its divestment plan, other oil companies are noticeably aiming and publicly declaring their wish to expand their presence in Brazilian waters, by signing strategic partnerships for the sharing of information, experiences and technologies with Petrobras and investing in relevant assets in the country.





By Paula Quirino



TOTAL

In December 2016, Petrobras signed a master agreement with Total, in connection with a strategic alliance established in a MoU two months earlier. The two companies are jointly participating in key projects in the giant Libra area, which is the first production sharing contract in the Brazilian pre-salt in Santos Basin, besides exploration areas in Equatorial Margin, Espírito Santo Basin and Pelotas Basin. With this new agreement, the companies will also become partners in Iara and Lapa fields, in the Santos Basin pre-salt, and in two thermal plants, sharing the use of the regasification terminal infrastructure located in Bahia state. Other transactions outside Brazil are also covered by the master agreement. The sale of 22.5% interest from Petrobras to Total has been agreed in the Iara area (Sururu, Berbigão and Oeste de Atapu fields) in Block BM-S-11. Petrobras will remain the operator and will keep the largest stake in that consortium, currently of 65% interest. Shell, with 25%, and Galp with 10%, are partners in this area. The reservoirs of this concession have higher complexity

and are in the production development phase. Meanwhile, the sale of 35% interest to Total in Lapa field in Block BM-S-9 has been agreed, with transfer of the operation to Total. Currently, Petrobras holds 45% interest and is the operator. Shell, with 30%, and Repsol with 25%, are partners in this field. The development of the Lapa field is at an advanced stage, with the recent start of production, and presents geological characteristics and oil quality different from other pre-salt fields. Lapa's FPSO Cidade de Caraguatatuba is capable of producing daily 100 thousand barrels of oil and compressing 5 million m³ of gas daily, and is interconnected through production well 7-LPA-1D. The approval for the full transfer of the operation to Total is expected to happen within 2017, and the tender to contract OSVs to support the field shall be issued afterwards. Total plans to invest USD 1 billion annually in Brazil, and with these latest developments the company can become the second largest oil producer in the country, only behind Petrobras' numbers.



- **MASTER AGREEMENT WITH PETROBRAS**
- **FIRST PRODUCTION SHARING CONTRACT IN THE PRE-SALT**
- **22.5% INTEREST IN IARA FIELD**
- **35% INTEREST IN LAPA FIELD, TAKEN OPERATORSHIP**
- **FULL OPERATION TRANSFER WITHIN 2017**
- **ANNUAL USD 1 BILLION INVESTMENTS IN BRAZIL**

STATOIL

Earlier last year, Petrobras has agreed to sell the company's stake in exploration block BM-S-8 to Statoil. The two companies have also signed a strategic partnership agreement for technological development in offshore E&P. Block BM-S-8 is situated in the Santos Basin (Carcará discovery) and is currently operated by Petrobras (66%), in partnership with Petrogal (14%), QGOG (10%) and Barra Energia (10%). Statoil estimates the recoverable volumes within the BM-S-8 license to be in the range of 700 to 1,300 million boe. The license in the Carcará area is in its final exploration phase with one remaining exploration commitment well to be drilled. Thus, Statoil plans on issuing a tender to contract OSVs as well as other logistics needs within Q1 2017, while operations are expected to start in Q4 2017. Vessels to be contracted are not defined yet, but per minimum environmental and operational requirements at similar blocks in the region, at least 2 PSVs 3000 or 4500 and 1 OSRV are expected to be required. Last week, the union for oil and gas workers ("FUP") filed a court action in order to stop the sale process of the block to Statoil, claiming that the transaction was not done



- **ACQUISITION OF BLOCK BM-S-8**
- **ESTIMATES RECOVERABLE VOLUMES IN THE RANGE OF 700 TO 1,3 MILLION BOE**
- **TENDER FOR OSV WITHIN Q1 2017**
- **FOUR WELLS TO BE DRILLED IN ESPIRITO SANTO**
- **DEVELOPMENT PHASE OF BM-C-33**

publicly and properly and the sale price was too low. The federal court has not yet decided on the case. In addition to it, there are four wells to be drilled by Statoil in Espírito Santo in partnership with Petrobras in 2017, even though ANP has granted Statoil with a drilling deadline postponement until 2020 (blocks from 11th ANP round). Statoil plans on issuing a tender in Q2 2017 to cover the needs of this campaign, while the start of operations is expected around Q4 2017 for at least 6 months. The specifications of the support fleet are also undefined, but it should be similar to Carcará's required fleet. In case Carcará's and/or Espírito Santo drilling schedules get delayed and do not overlap, Statoil may utilize same OSV fleet and other assets for both drilling campaigns, and eventually part of the current fleet operating in Peregrino field. Statoil is also evaluating the development phase of BM-C-33 comprising the Pão de Açúcar, Gavea and Seat discoveries (Campos basin), which were famed-in from Repsol Sinopec in 2015 and have approximately 1bn boe in recoverable reserves.

PETRORIO

Last week, the Brazilian oil company Petrorio finalized a deal to buy 100% of Brasoil. The purchase gives the company, which already operates the Polvo field in the Campos Basin, 10% of one of the country's largest gas fields, Manati. Manati is located offshore near Salvador in the Northeast of Brazil and was producing 4.2 mcm per day as of December 2016 according to ANP, be-

ing the 8th largest gas field in Brazil in terms of production. Petrobras is the current operator and holds 35%, with QGOG holding 45% and Geopark Brasil the remaining 10%. Petrorio has not disclosed any schedule on the production takeover of the fields, as well as the expected tender issuance for OSVs and all logistics solution in the region.

KAROON

The Australian company Karoon purchased 100% of Baúna field (Santos basin) from Petrobras last year as reported. Nonetheless, a court injunction was filed to stop this transaction, and the Supreme court put off the sale of the field in late January 2017. In case this decision is overruled or Petrobras manages to sell the block following other determined rules, Karoon plans on taking over the operation of the field in up to one

year after the sale is confirmed. Baúna is at 270m water depth, produces since 2013 and its current average with the FPSO Cidade de Itajaí is 45 thousand barrels per day. The minimum fleet expected to support long term production in this field is 1 AHTS, 1 small PSV, 1 boom handler and 1 line handler, still subject to Karoon and environmental agency's approvals.



- **ACQUISITION OF BRASOIL**
- **OPERATOR OF POLVO FIELD**
- **OWNS 10% OF MANATI, BIGGEST GAS FIELD**
- **NO DISCLOSURE OF EXPLORATION SCHEDULE**



- **PURCHASE OF 100% OF BAÚNA FIELD**
- **POPULAR COURT ACTION STOPPED THE PROCESS**
- **BID FOR OSV'S STILL SUBJECT TO LICENSES AND APPROVALS**

Even though the influence of these demands over the fleet of over 400 OSVs in the country shall be little in the short/medium terms when compared to the fleet dedicated to the oil major Petrobras, the growth in the country of the big global and local players is undeniably a reality and these moves show the great potential Brazil has for diversification of players and development through farm-ins and expected ANP tenders.

PETROBRAS IN NUMBERS

Some may say 2016 was a disaster. Production numbers tell a different story



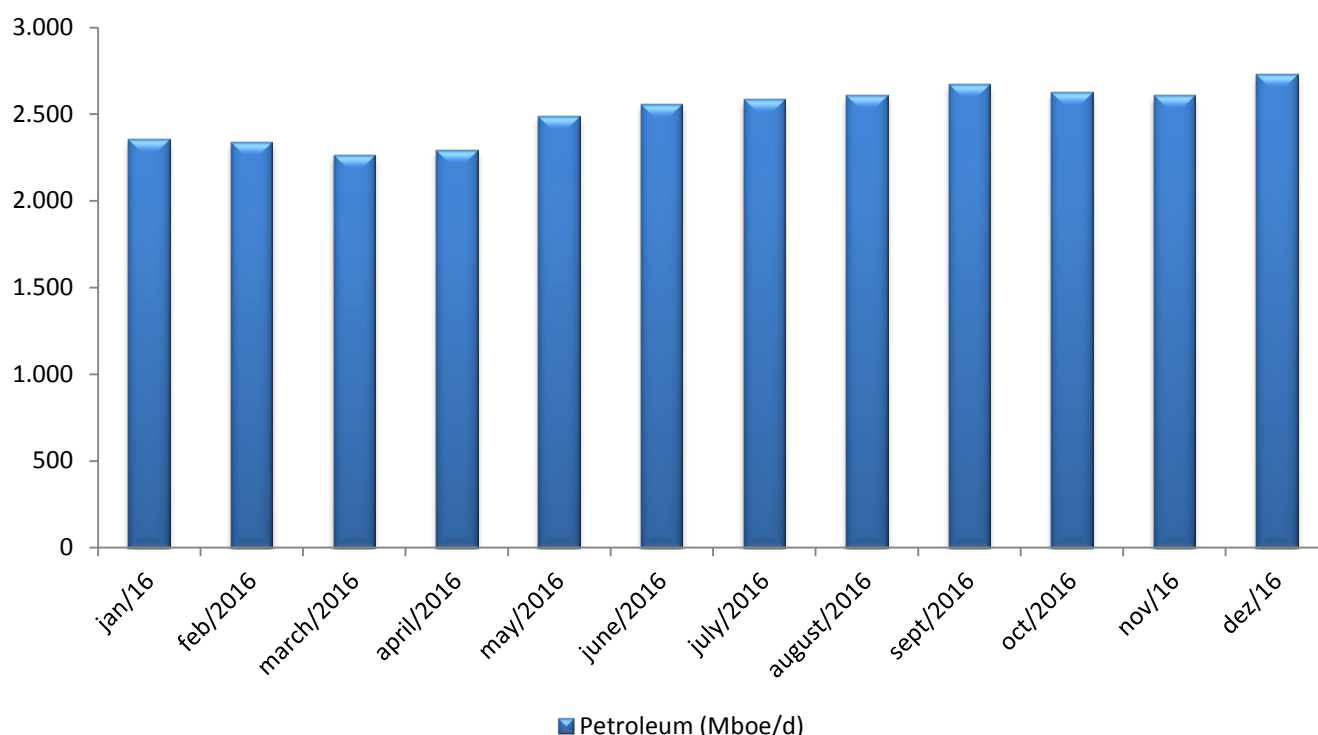
By Omar Darian
Market Intelligence



The majority of people involved in the off-shore industry would easily affirm that 2016 was a disaster. We hardly ever heard good news of the oil sector. In Brazil, we got tired of reading a new episode of the Car Wash operation almost every day. It felt like Petrobras was going down the drain and together with it the whole Brazilian offshore sector. As brokers, we at Westshore

are always looking for good and realistic prospects of our industry. We feel the need to show that there is still hope and that slowly things will start to get back on track. Having that in mind, we decided to write an article based on production numbers for last year. Despite the oil price dropping below USD 50, surprisingly the production trend went the opposite direction, beating new records almost every month.

Also, our beloved pre-salt reached the incredible 1 billion accrued barrels mark, six years after the first commercial production in the area and surpassed the 2015 production by 33%. On the graph below, we can clearly see how production elevated throughout 2016. From January to December, oil production increased by 14%, ending December with 2.730 (Mboe/d).



According to Petrobras, the significant increase in production was mainly due to production growth in Lula field, most specifically in Iracema Norte and Iracema Sul areas, where 2 FPSOs were

deployed. Sapinhoá field with FPSO Cidade de Ilhabela and Parque das Baleias area with P-58 also contributed to the figures. Last but not least, three production systems started, two of which in the

Lula field (FPSO Cidade de Maricá and FPSO Cidade de Saquarema) and one in Lapa (FPSO Cidade de Caragatatuba), located in the Santos Basin's pre-salt layer.

MADE IN BRAZIL

New local content regulations and the impact it could have in the Brazilian oil sector



Moves by Brazilian authorities to create new rules to ease existing local content policy have pleased oil companies that are involved in E&P activities in Brazil. For them, the largest Latin American country still lacks a skilled workforce and high-technology performance in the offshore industry, which make investments more expensive and inefficient. For that, a new regulatory framework that welcomes acquisition of equipment overseas is developed in order to give E&P activities more efficiency. Created to protect the local offshore industry in Brazil, the federal law establishes the minimum percentage of local equipment, vessels and services that should be purchased by oil companies operating in Brazilian oil fields. In some cases, the minimum local content percentage is 40%.

The Brazilian authorities have been discussing

necessary changes in the regulatory framework and restrictive policies for different sectors in order to attract investments, including the oil and gas industry.

The exploration and production oil companies are calling for the simplification of the current rules, since it results in fines, and the application of a global index capable of attracting investment and fostering the creation of a more competitive chain of suppliers.

On the other hand, the good and services companies rejects an idea of a global index. According to a study made by the Industries Federation of the State of São Paulo (Fiesp), with a single global index of 40%, local content can be reached with zero machines and equipment produced internally. The industrial segment is the one that adds more value and more jobs. In the supply of goods and services to the oil and gas sector, "services" represents



By Wilson Nobre. Shipbroker



50% of demand, the remaining 50% are: 20% in machinery and equipment and 30% are inputs i.e. plates and pieces.

Furthermore, according to Fiesp if an investment of BRL 1 billion were to be made in the exploration and production in oil and gas sector, the domestic production of goods and services would generate BRL 551 million in contribution to GDP and 1,532 jobs. If local content rules are withdrawn, the same amount of investment would result in BRL 43 million to GDP and 144 jobs. The revenue generated in taxes would fall from the current BRL 521.5 million to BRL 31 million and the total salaries paid, from BRL 293.9 million to BRL 27.8 million. Impacts were measured for the medium and long term, considering that the demand for goods would be 100% met by imports.

Yet those likely changes are making the offshore industry unhappy. During 2017, a year

when Brazil will auction roughly 300 exploratory fields, discussions about creating flexible rules for investments have sparked controversies within the segment.

Finally, it is important to emphasize that Brazil is a standout market in terms of the oil and gas space. The country has large numbers of sedimentary basins with great economical potential, with only slightly over 4 percent of the area under concession for exploration and production activities. Furthermore, Brazil's production of natural gas keeps reaching records. The Government's decision over the changes to the regulatory framework and on restrictive policies has been postponed to February 22nd. It will certainly enhance investments opportunities and are expected for quite a few years but are they welcome or not?



BRAZILIAN FUEL IMPORTS



By Daniel Buckley, Tanker Broker

When the price of a barrel of crude oil collapsed from over US\$100 to below US\$30, it triggered a hefty trade of fuel imports into Brazil. Since the end of 2014, a quite substantial volume of gasoline and diesel (S500 and S10 grades) has been shipped, mostly from the USA and some from the UK/Continent, by traders taking advantage of lower prices abroad compared with the unaffected high prices in Brazil.

At the time, Petrobras was still under Government pressure controlling internal prices for its political benefit. With the investigations' turmoil and reorganization that followed, Petrobras decided to focus on its core business Exploration & Production of crude oil with the Government's acquiescence enabling Petrobras to be more market oriented on its pricing and policies.

It turned out that, all of the available storage tanks space on Brazil's coast was taken for the

discharge of fuels – Tank farms that were until end 2014 with about 40 percent occupancy, were fully booked, even tank holders allocated for ethanol exports migrated to fuels. This in turn led to a major bottleneck and resulting delays discharging the cargoes and huge demurrage bills because the sales and distribution were not keeping up the pace with the ships deliveries due to the ongoing economic crisis.

With the new setting, Petrobras has focused in regaining their market share with pricing policy tuned in with the international crude prices fluctuation, consequently restraining the traders' gains. The problem is that the refining capacity has not been up to speed. Therefore, a question still remains open: Would it be the case for Petrobras, in addition to price control, engage in participating in this trade importing the fuels themselves tackling a direct competition with the traders?