THE ROLE OF CHINA IN BRAZILIAN OIL AND GAS INDUSTRY

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PLAN OF THE PRESENTATION

► Introduction
► Chinese participation in Brazilian oil and gas industry
► Chinese direct investment in Brazilian oil and gas
► Chinese oil-for-loan in Brazil
► Bilateral cooperation for trade and investment
► Conclusion: future role of China in Brazil oil and gas
INTRODUCTION

- Brazil is a latecomer for Chinese trade and investment: the country was not an important target for Chinese oil companies internationalization until recently.

- The Presalt discovery positioned Brazil as an important opportunity for Chinese internationalization.

- As Chinese companies familiarize with Brazil, they tend to identify new business opportunities.

- Brazil’s dependence on Chinese investment and trade tends to increase.
Chinese Participation in Brazilian Oil and Gas Industry
Until 2005, Chinese presence in Brazilian oil and gas was very timid.

2005: Sinopec enters the Brazilian market offering engineering and EPC services, participating in the GASENE Project.

2009: Petrobras borrows 10 billion dollars from Chinese Development Bank to be repaid with oil exports.

2010:
- Presal Discovery drives Sinopec to acquire stakes in Galp and Repsol.
- Sinochem start to explore in Brazil.

2013: China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation (CNOOC) win 10% each in the Libra block.
Chinese Direct Investment in Brazilian Oil and Gas
CHINESE OIL COMPANIES ARE NOT INTERESTED ONLY IN ENERGY

Source: Conselho Empresarial China Brazil (2013)
In 2010 Sinopec acquires 40% of Repsol Brasil for US$ 7.1 billions

The new company “Repsol Sinopec” is a giant E&P company in Brazil with US$ 17.8 billions in market value

The company has a strategic position in the Brazilian E&P, specially in the Presalt:
- 2 fields under production: (Albacora Leste and Sapinhoá),
- 2 fields under development (Piracucá and Carioca)
- 9 exploration blocks in Brazil
In 2010 GALP acquires 30% of Galp Energia do Brasil for US$ 4.8 billions

Main assets in Brazil:
- Galp Energia participates in 20 exploration projects
- 4 fields in the Presalt

<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lula/Iracema</td>
<td>Unparalleled development project currently being executed</td>
<td>2010+</td>
</tr>
<tr>
<td>Iara</td>
<td>Giant reservoir going under appraisal phase</td>
<td>2017+</td>
</tr>
<tr>
<td>Carcará</td>
<td>Carbonate reservoir with excellent porosity and permeability</td>
<td>2018+</td>
</tr>
<tr>
<td>Júpiter</td>
<td>Giant reservoir of oil, gas and condensates with development concepts being studied</td>
<td>2019+</td>
</tr>
</tbody>
</table>
SINOCHEN PARTICIPATION IN BRAZIL

▶ Acquisition of a 40% stake in the Pelegrino field operated by Statoil, a US$ 3 billion investment
  – Pelegrino currently produces 80 thousand b/d

▶ Participation in 5 exploratory blocks in the Espírito Santo Basin
Libra Consortium:
- Petrobras is the operator and holds 40%, Shell holds 20%, Total 20%, CNPC 10% and CNOOC 10%

Libra:
- 8-12 billions of recoverable oil
- Required investments estimated in 80 billions until 2025

Chinese participation will be very important to face financial and technological challenges in developing Libra
CHINESE COMPANIES ARE ALREADY PRODUCING A SIGNIFICANT AMOUNT OF OIL AND GAS IN BRAZIL

Oil and Gas Production in Brazil by Company

<table>
<thead>
<tr>
<th>Nº</th>
<th>Concessionário</th>
<th>Petróleo (bbl/d)</th>
<th>Gás Natural (Mm³/d)</th>
<th>Produção Total (boe/d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Petrobras</td>
<td>1.838.836</td>
<td>67.940</td>
<td>2.266.179</td>
</tr>
<tr>
<td>2</td>
<td>BG Brasil</td>
<td>56.550</td>
<td>2.278</td>
<td>70.879</td>
</tr>
<tr>
<td>3</td>
<td>Statoil Brasil</td>
<td>47.118</td>
<td>60</td>
<td>47.497</td>
</tr>
<tr>
<td>4</td>
<td>Shell Brasil</td>
<td>39.382</td>
<td>532</td>
<td>42.726</td>
</tr>
<tr>
<td>5</td>
<td>Sinochem Petróleo</td>
<td>31.412</td>
<td>40</td>
<td>31.664</td>
</tr>
<tr>
<td>6</td>
<td>Parnaiba Gás</td>
<td>101</td>
<td>4.267</td>
<td>26.939</td>
</tr>
<tr>
<td>7</td>
<td>Repsol Sinopec</td>
<td>21.600</td>
<td>673</td>
<td>25.834</td>
</tr>
<tr>
<td>8</td>
<td>Petrogal Brasil</td>
<td>15.288</td>
<td>683</td>
<td>19.582</td>
</tr>
<tr>
<td>9</td>
<td>OGX</td>
<td>16.572</td>
<td>59</td>
<td>16.945</td>
</tr>
<tr>
<td>10</td>
<td>Queirós Galvão</td>
<td>247</td>
<td>2.654</td>
<td>16.943</td>
</tr>
<tr>
<td>11</td>
<td>ONGC Campos</td>
<td>12.738</td>
<td>155</td>
<td>13.714</td>
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<tr>
<td>12</td>
<td>BC-10 Petróleo Ltda.</td>
<td>10.851</td>
<td>132</td>
<td>11.683</td>
</tr>
<tr>
<td>13</td>
<td>BPMB Parnaiba</td>
<td>43</td>
<td>1.829</td>
<td>11.545</td>
</tr>
<tr>
<td>14</td>
<td>Chevron Frade</td>
<td>7.721</td>
<td>83</td>
<td>8.246</td>
</tr>
<tr>
<td>15</td>
<td>Chevron Brasil</td>
<td>5.971</td>
<td>48</td>
<td>6.274</td>
</tr>
</tbody>
</table>

Source: ANP
Chinese suppliers are learning the way to participate in the supply chain in Brazil

- Initially the focus was on exporting to Brazil
- The strategy of “Chinese imports avalanche” is not politically feasible
- Implementation of production in Brazil and acquisition of Brazilian suppliers tend to be the future strategy to participate in the supply chain
Chinese oil-for-loan in Brazil
BRAZIL IS NOT THE MAIN BORROWER IN LATIN AMERICA

Chinese lending to Latin America, 2005-13, $bn

- Venezuela: 13
- Argentina: 8
- Brazil: 7
- Ecuador: 10
- Bahamas: 3
- Mexico: 3
- Peru: 4
- Other: 18

Source: China-Latin America Finance Database

APUD: The Economist (2014)
MAIN OIL EXPORTERS TO CHINA - 2012

Source: Conselho Empresarial China Brazil (2013)
In 2009 the Chinese Development Bank (CDB) authorized an operation to lend US$ 10 billions to Petrobras

The loan should be reimbursed in 10 years with oil exports

Sinopec is importing 200 thousand barrels per day
Oil-for-loans tend to be used when alternative credit sources are more expensive.

This was the case in 2009 for Petrobras.

Petrobras is currently experiencing serious financial challenges, but oil-for-loan is not a solution at this moment.
FINANCIAL CHALLENGES OF PETROBRAS

- Rapid increase in net debt from US$ 31 billions in 2010 to US$ 94.6 billions in 2013
- The debt level is jeopardizing the Petrobras’ investment grade rating
Institutional Framework for Trade and Investment
The development of Brazil-China cooperation in the oil industry started without specific agreements between the countries regarding the oil sector.

- 2009: MOU on Oil, Equipment and Financing between the two governments to allow Petrobras’ loan and new investment initiative.

- 2010: Joint Action Plan for 2010-2014 between the two countries.
MAIN CONCLUSIONS

► Brazil oil sector has immense opportunities for Chinese companies

► China will have an important role in the development of Brazilian Presalt
  – Significant role in direct investment in oil exploration and supply chain
  – Financing option for the companies operating in Brazil
  – Important offtaker for the Brazilian oil exports

► The Chinese contribution will depend on how companies and government adapt their strategies and business model to the Brazilian context

► Direct investment seems to be the most important strategy
Thank you

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MAIN REFERENCES

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