



**PRYSMA E&T CONSULTORES**

# **WHAT'S NEXT FOR LATIN AMERICAN NATIONAL OIL COMPANIES?**

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**Pryisma E&T Consultores Asociados**



Fourth Annual Latin America Energy  
Conference: Upheaval and  
Opportunity

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# WHO WE ARE

- + A *boutique* consulting group, formed by senior energy specialists with cumulative expertise that spans the whole oil and gas value chain, as well as the intersection of gas and power industries
- + Located in Rio de Janeiro, with a long-standing presence in the Brazilian and Latin American energy sectors, and a nuanced understanding of their interconnection with global energy markets
- + Senior consultants with an international professional background, in both industry and consulting, and different academic backgrounds, providing a multidisciplinary approach and a cultural flexibility to facilitate the interaction with clients of diverse profile, dimension and origin

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# AGENDA

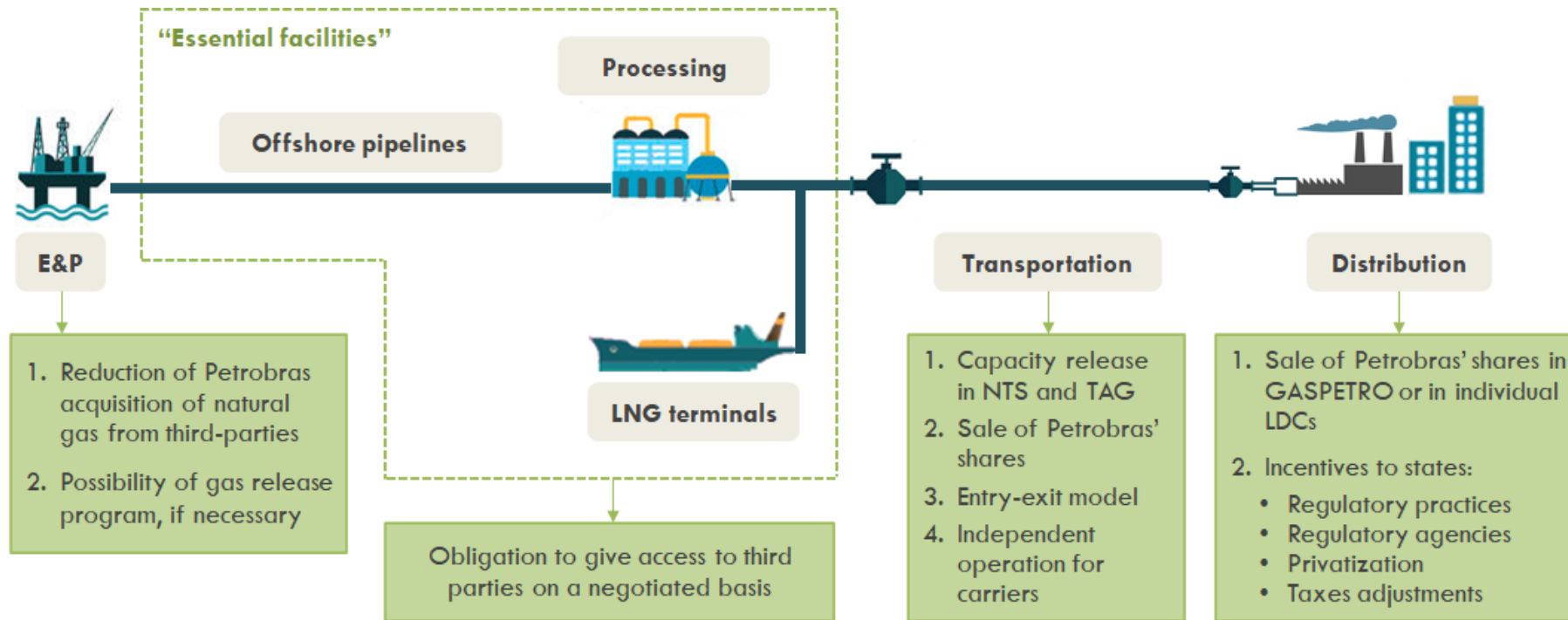
- The new gas bill and, more generally, the ongoing natural gas reform
  - ▶ Status and implications for the Brazilian gas sector and for Petrobras
- Impact of Covid-19 on Petrobras's finances, production, divestment program and general investment strategy

# Brazil is undergoing a very comprehensive gas market reform...

- **2015** – Petrobras starts divesting natural gas assets (Gaspetro, TAG)
- **2016** – Discussions to improve gas sector legislation start under the “Gas para Crescer” (Gas to Grow) initiative
- **2017** – The work of the Gas para Crescer committees results in a New Gas Bill proposed by the Government
- **2018 Dec.** – Decree 9616/2018 introduces several important changes, but it’s not a Law
- **2019** – Launch of “Novo Mercado de Gás” (New Gas Market) program by the newly elected government
  - ▶ CNPE Resolution 16/2019 sets guidelines for guidelines for federal entities (MME, ANP, EPE, CNPE and CADE), Petrobras and incentives for states governments
  - ▶ CADE-Petrobras TCC (“Cease and Desist Agreement”) determines that Petrobras will sell all remaining stakes in natural transportation and distributions
- **2020** – The New Gas Bill is back on the agenda, and in August is approved by the Chamber of Deputies, now to be discussed in the Senate

**...the New Gas Bill is a “necessary but not sufficient” part of the reform process to establish a competitive gas market in Brazil**

# The New Gas Bill will give greater legal security to investors, and is needed to modify certain aspects of the regulatory framework that can only be modified by a Law



Source: Pryisma analysis

...but even after the Bill is approved, much remains to be done: secondary regulations, contract adaptations, network codes, possible gas release programmes, etc.

# The federal regulator ANP has set up a 4-year regulatory agenda

2020	2021	2022	2023
<p>Resolution on <b>transporter independence</b> criteria</p> <p>Resolution on <b>interconnection between transport pipelines</b></p> <p>Revision of the Resolution on <b>Transport Tariff</b> (RANP n° 15/2014)</p>	<p>Guidelines for developing <b>common access codes</b></p> <p>Revision of the Resolutions on:</p> <ul style="list-style-type: none"><li>• <b>Shippers</b> (RANP n° 51/2013)</li><li>• <b>Commercialization</b> (RANP n° 52/2011)</li><li>• <b>Transport Capacity Expansion</b> (RANP n° 37/2013)</li></ul>	<p>Resolution on mechanisms for <b>transfer of revenue between transporters</b></p> <p>Revision of Resolution on <b>access to transportation</b> (RANP n° 11/2016)</p>	<p>Resolution on LNG terminal access conflict resolution</p> <p>Resolution on <b>characterization of the natural gas transport system</b></p>

Source: ANP, 2019

**This agenda has been delayed due to the pandemic.**

## IMPLICATION FOR THE BRAZILIAN GAS SECTOR

The aim of the legal and regulatory reform is to:

- Increase number of players in gas supply in order to foster competition
- Guarantee non-discriminative access to infrastructure so that new suppliers can reach consumers
- Liberalize final market, allow large consumer to chose their supplier

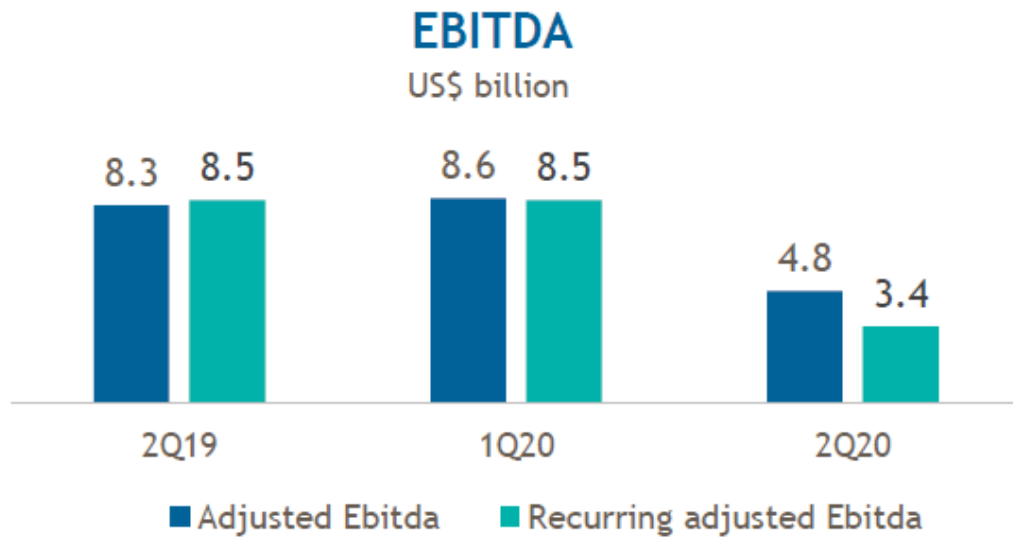


**More efficient use of infrastructure**  
**Lower gas prices for final consumers**  
**Gas demand growth**

## IMPLICATIONS FOR PETROBRAS

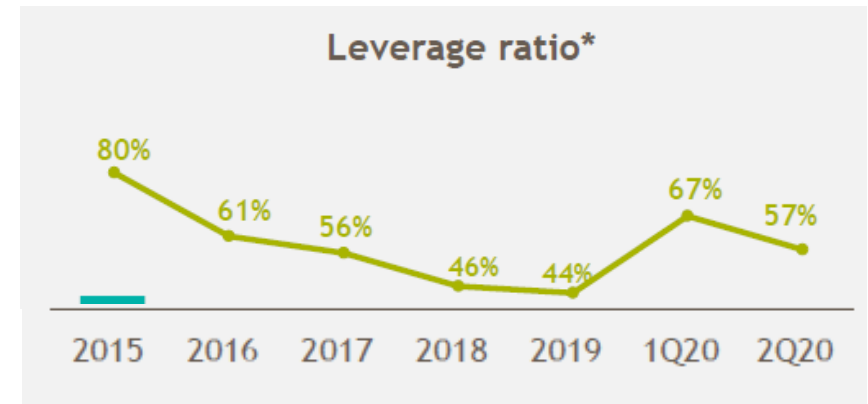
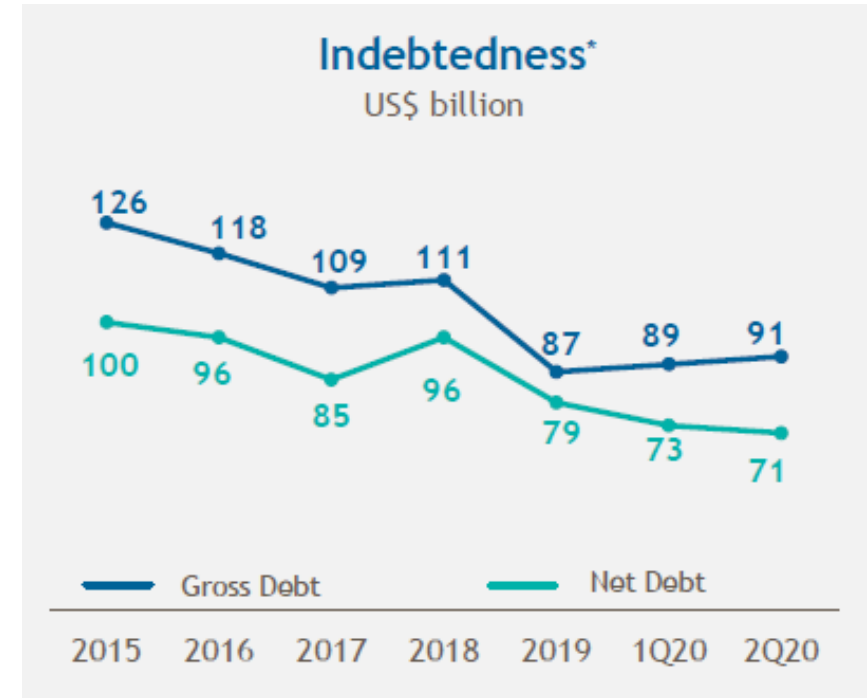
- Petrobras started restructuring / divesting gas assets BEFORE the gas reform, not as a result of it
- A large part of Petrobras restructuring strategy involves selling midstream and downstream gas assets, much has been sold, but a lot has yet to be divested, including gas-fired power plants, regas terminal, fertilizers plants, etc.
  - reform/new bill will facilitate sale of these assets and increase their value
- Even the sale of Petrobras upstream assets will benefit from reform/new bill, as it will add value to associated gas

# Impact of Covid-19: Petrobras' financial indicators suffered but, all in all, the company showed to be resilient



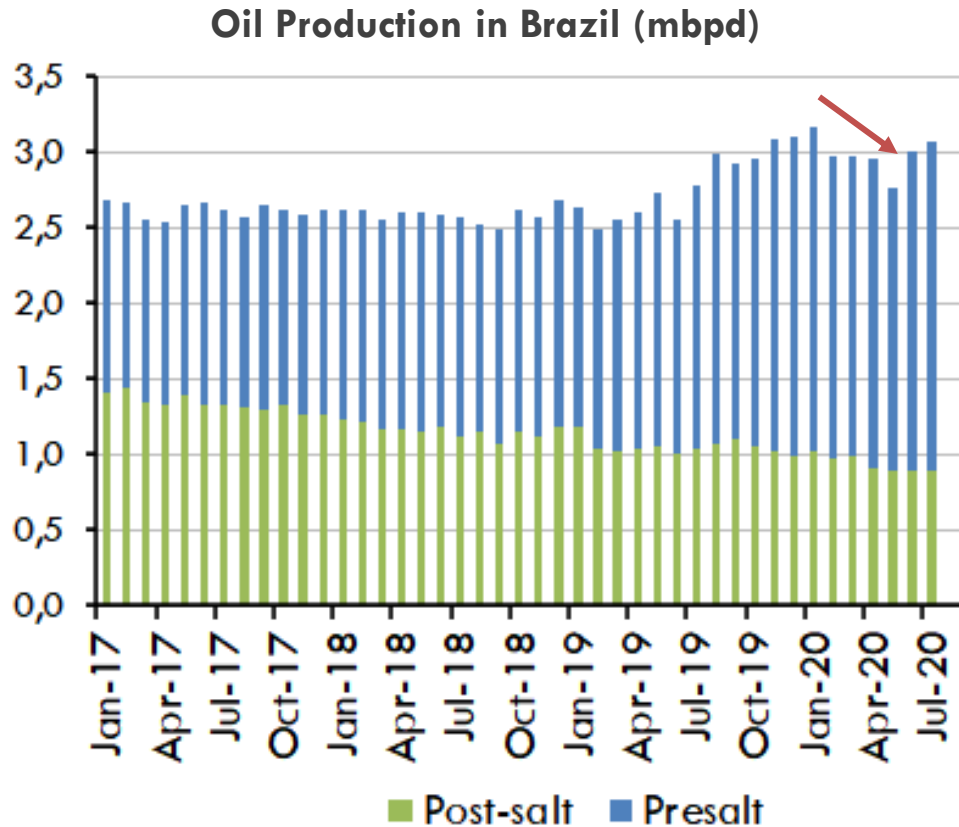
Brent (US\$/bbl)	2Q19	1Q20	2Q20
	68.82	50.26	29.20

Source: Petrobras

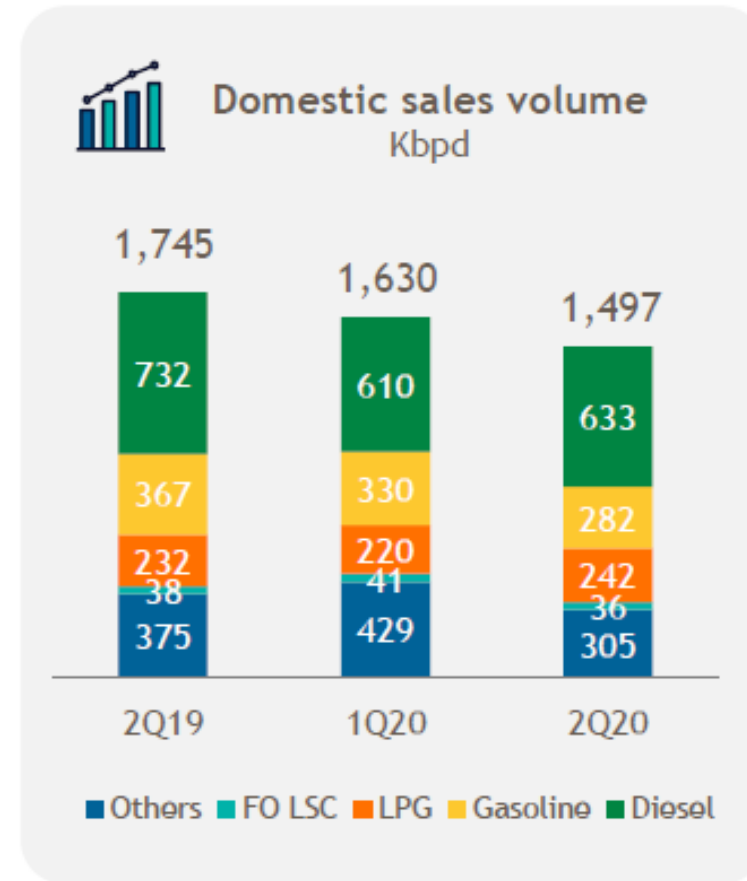




# Impact of Covid-19: Just like other oil & gas companies Petrobras' production has affected by the sharp decline in demand...

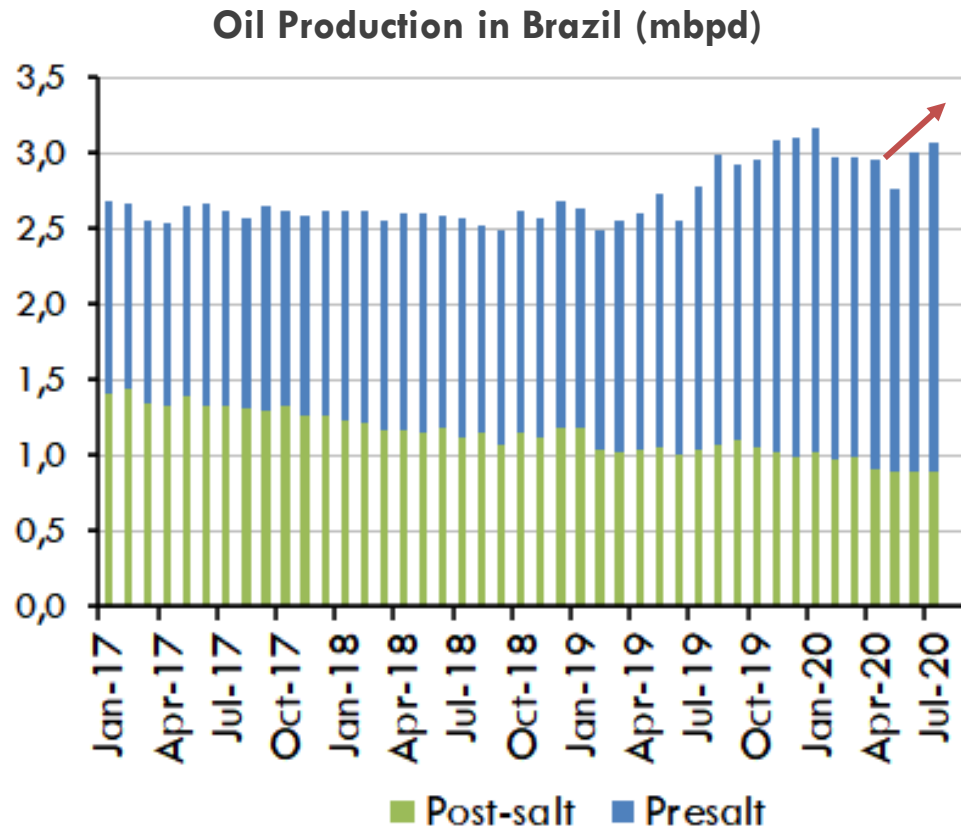


Source: ANP

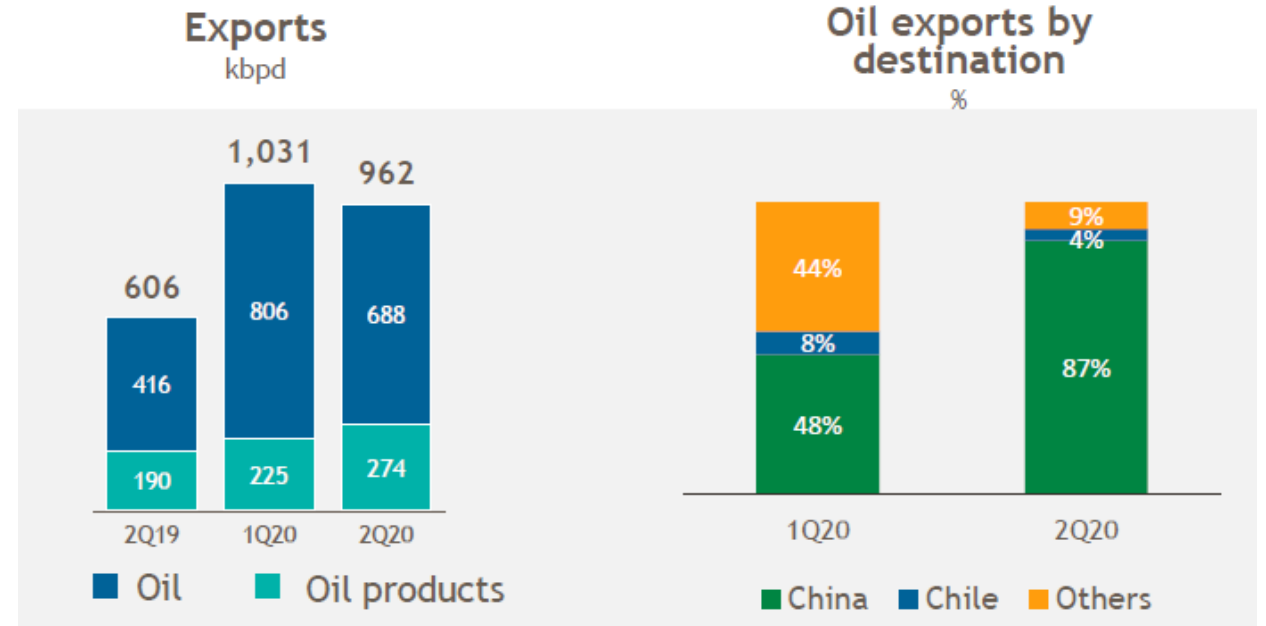


Source: Petrobras

# ...but the loss of internal market demand has been partially compensated by the strong increase in exports, mainly to China



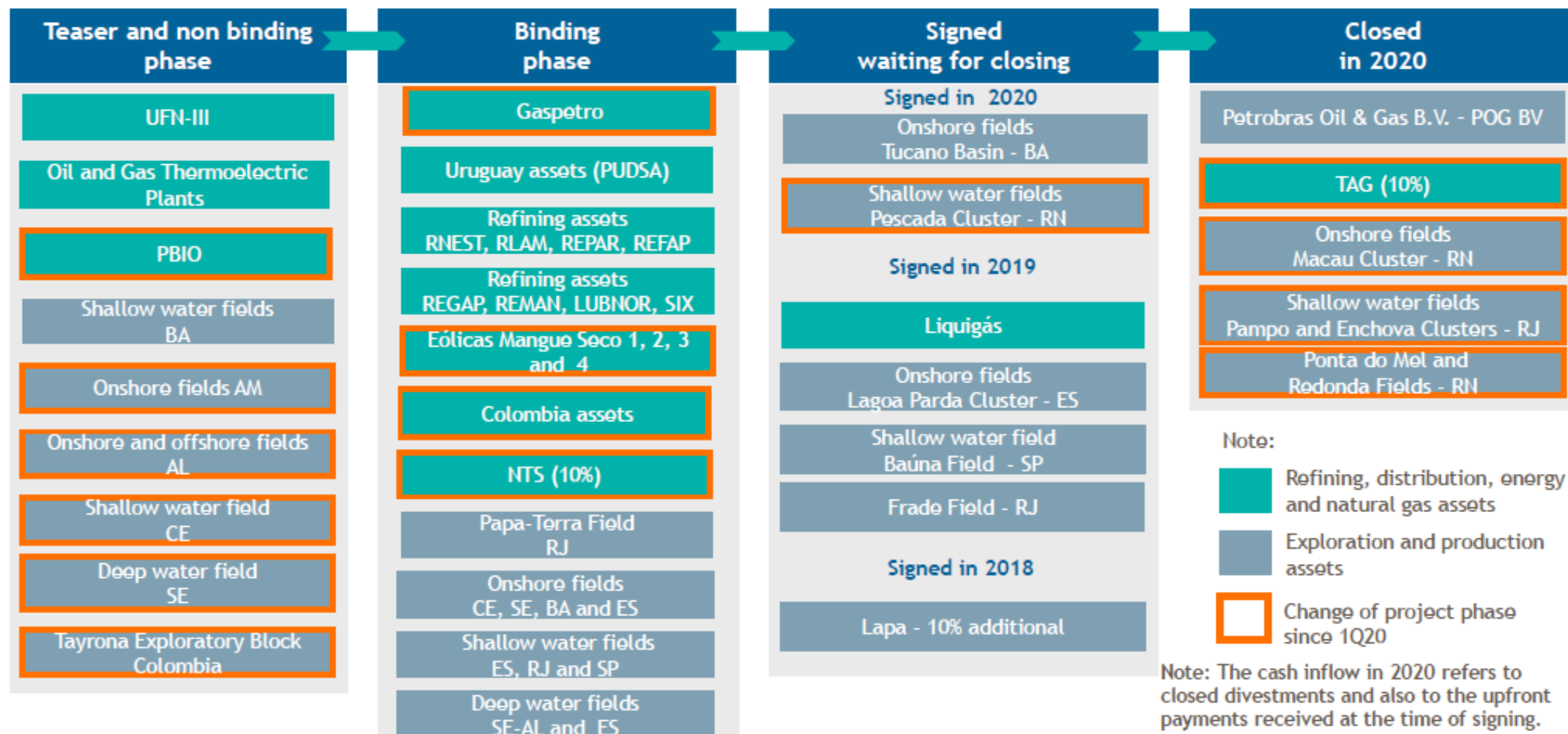
Source: ANP



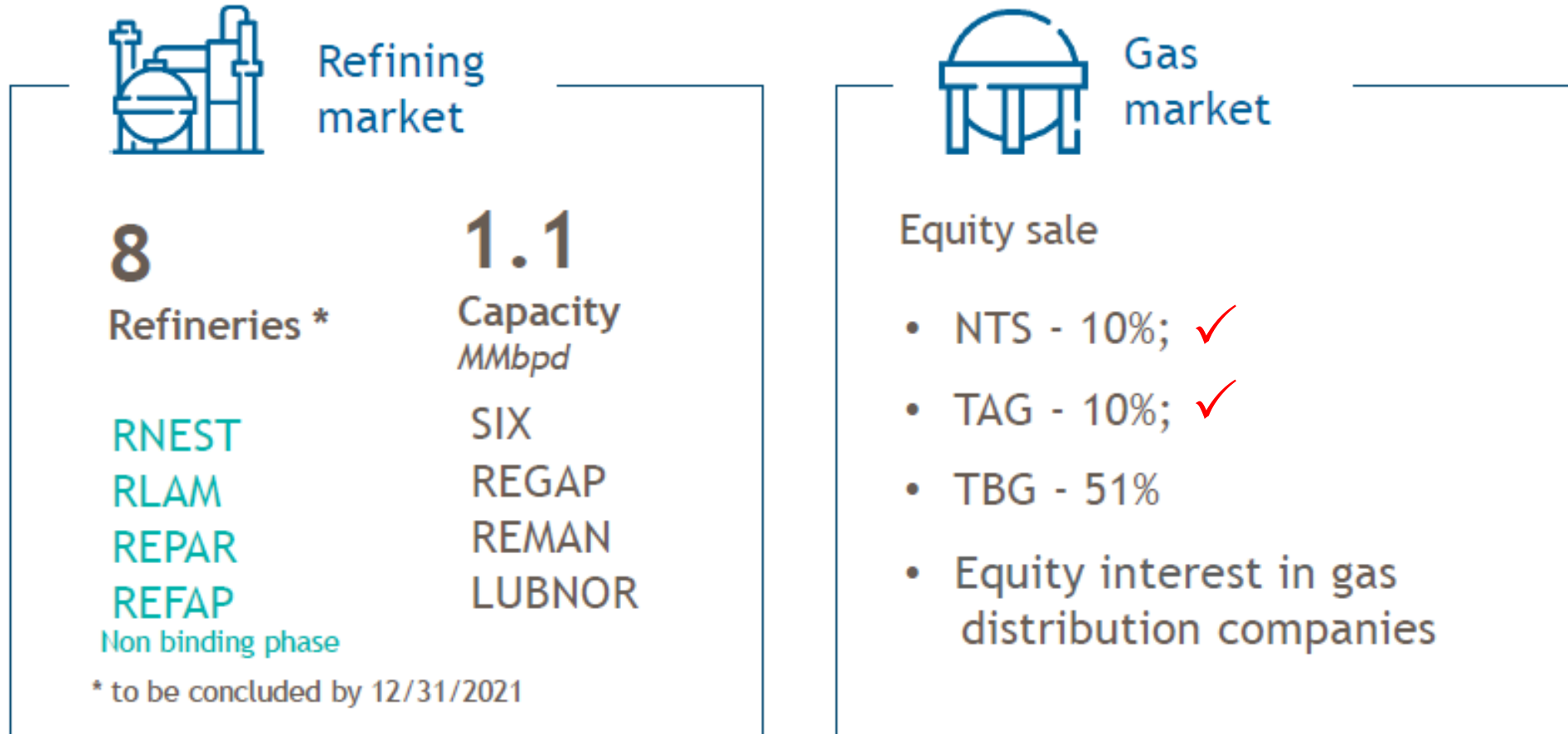
Source: Petrobras

# Divestment have continued moving forward in 2020

Total cash inflow of US\$ 997 million in 2020



## Two important – and sensitive – areas for divestment

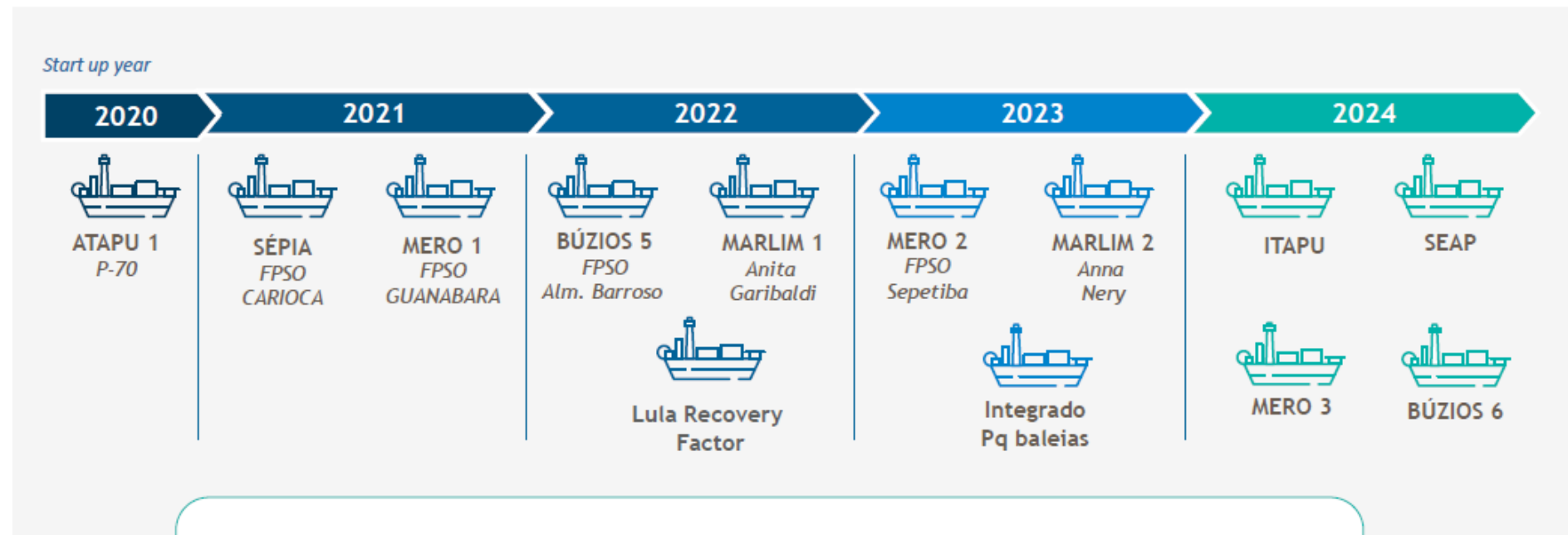


...but recent decision by the Supreme Court shows Petrobras has political support

# General investment strategy remains unchanged: focus on high-value creation projects...

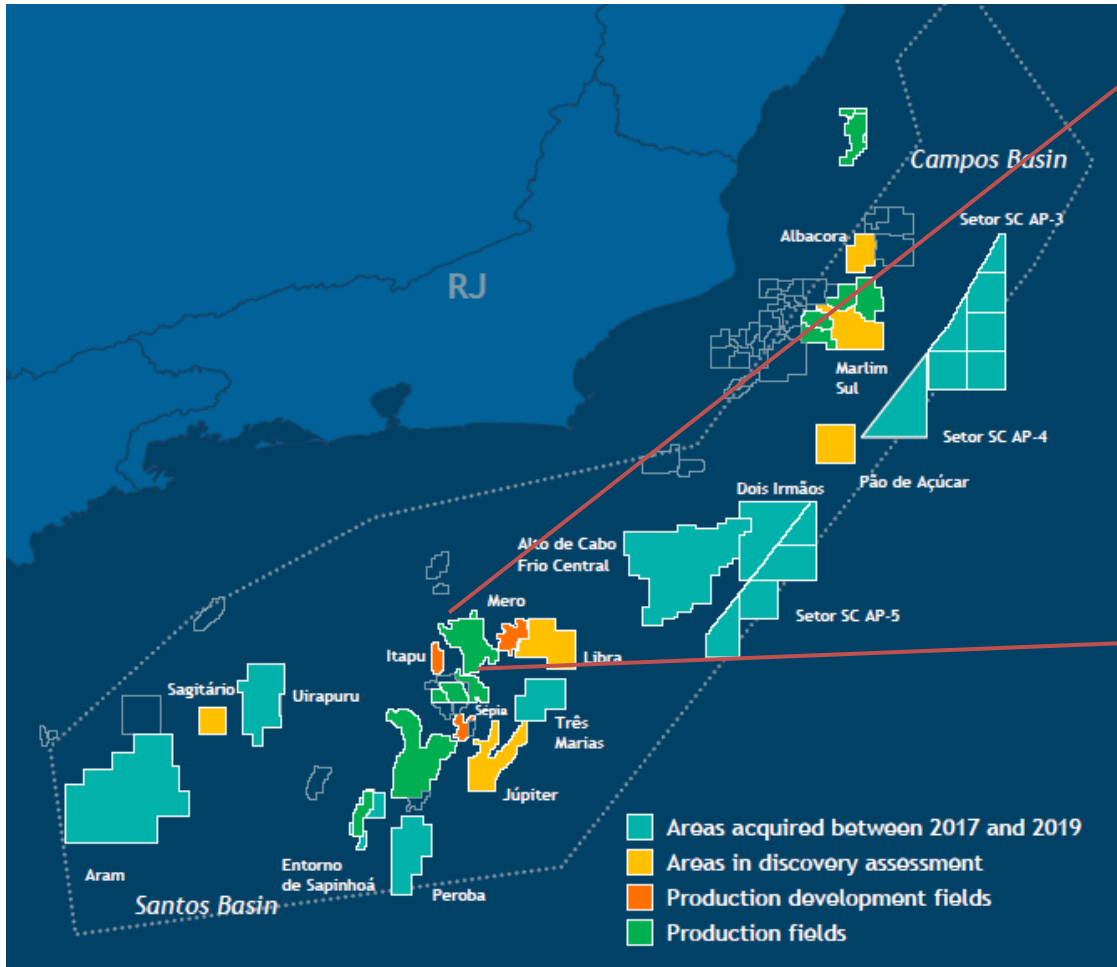
## Timeline of new production systems

Ongoing revision focusing on value creation



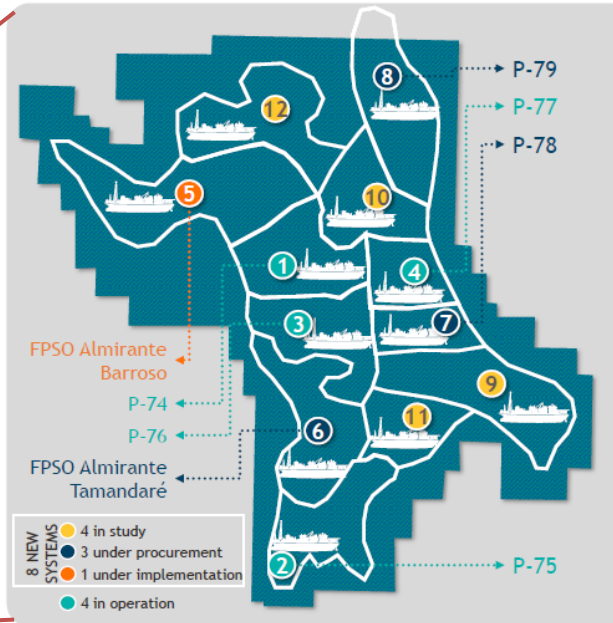
- » Advanced stage and short-term value generation projects: no major changes
- » Planning revision for projects on the middle and long term

# ...and basically that means Pre-salt

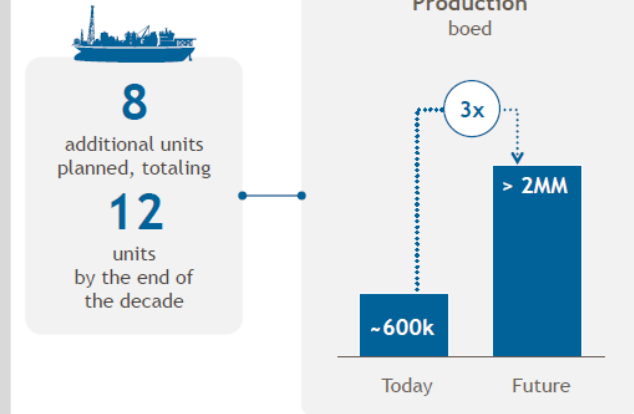


Source: Petrobras

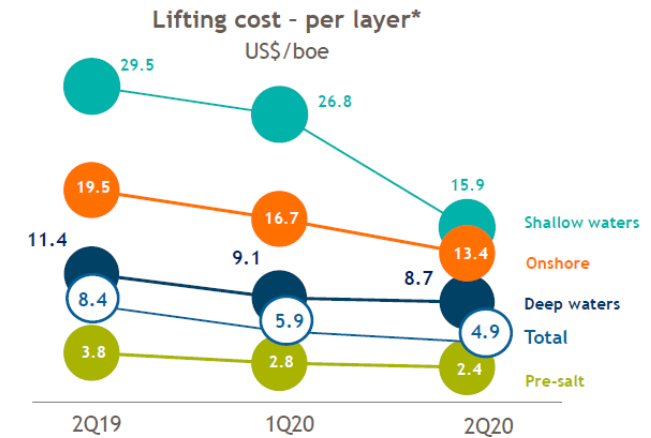
## Búzios: the giant of the pre-salt



**Most valuable asset for Petrobras**



Negotiations with CNOOC, CNODC and PPSA for the Co-Participation Agreement are going well, with conclusion expected by the end of 2020



# THANK YOU !



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