

11-30-2007

Brazil Announces Discovery Of Massive Oil Reserves

NotiSur

Follow this and additional works at: https://digitalrepository.unm.edu/la_energy_notien

Recommended Citation

NotiSur. "Brazil Announces Discovery Of Massive Oil Reserves." (2007). https://digitalrepository.unm.edu/la_energy_notien/120

This Article is brought to you for free and open access by the Latin American Energy Policy, Regulation and Dialogue at UNM Digital Repository. It has been accepted for inclusion in NotiEn: An Analytical Digest About Energy Issues in Latin America by an authorized administrator of UNM Digital Repository. For more information, please contact disc@unm.edu.

Brazil Announces Discovery Of Massive Oil Reserves

Brazil's state-owned oil company Petroleo Brasileiro S.A. (Petrobras) announced the discovery of 5 billion to 8 billion barrels of oil and natural-gas reserves, the largest discovery worldwide in years. Petrobras studies of the offshore Tupi field and a new discovery nearby showed enough oil to increase national oil reserves by more than half and appeared to show enough petroleum to make Brazil one of the top 10 oil producers in the world, the company announced.

One economic analysis showed that Petrobras was among the top five publicly traded companies in the US after the announcement. Eight billion barrels nearly matches Norway if the fields have 8 billion barrels to offer, the amount could boost the country's reserves by as much as 62%. The company's shares rose the most in more than eight years on Nov. 9. The estimate for Tupi was made after drilling a second test well, Petrobras said in a statement on its Web site. Tupi's total estimate would almost match that of Norway's 8.5 billion barrels of proven oil reserves, according to an estimate by BP Plc. Brazil already had 13 billion barrels of oil and natural-gas equivalent of proven reserves, according to Petrobras, based in Rio de Janeiro. The oil at Tupi, in the offshore Santos Basin, is a light grade, more valuable and cheaper to refine than the heavy crude that dominates Brazilian output. "This is certainly the biggest oil discovery in deep water" and the largest since Kazakhstan's Kashagan, with at least 12 billion barrels in reserves, was found in 2000, said Matthew Shaw, an analyst at Wood Mackenzie Consultants Ltd. in Edinburgh. The Kazakhstan discovery was the largest in 30 years. The potential new deposits may raise Brazil's oil reserves from 17th in the world to among the top 10, according to Petrobras. The field will be able to produce as much as 1.2 million barrels of oil a day in 2024, according to Wood Mackenzie estimates. The partners will need to invest about US\$8 billion to tap the deposit. Petrobras plans to begin a pilot project to produce 100,000 bpd in Tupi beginning in 2011. The Tupi find is just a "tiny" part of a new oil province that Petrobras believes is beneath existing fields, CEO Jose Sergio Gabrielli said Nov. 8. Lula: "God is Brazilian" "God is Brazilian," Brazilian President Luiz Inacio Lula da Silva said Nov. 20 in relation to his government's announcement of the massive new offshore oil reserves. "This discovery...proves that God is Brazilian," he said during a speech at his presidential palace in the capital Brasilia. The phrase is a common adage in Brazil, with Brazilians having long claimed that God shares their nationality on the basis of the natural resources at their disposal. The British magazine The Economist also made reference to that saying in its take on the oil find in an article subtitled, "God may indeed be Brazilian after all."

Analysts: Discovery changes everything for Brazil, Petrobras "Tupi changes everything for Brazil and Petrobras," said Carlos Renato Nunes, an oil analyst with Sao Paulo-based brokerage firm Coinvalores CCVM. "Tupi is not only huge, its light oil offers huge cost advantages. The field and region could easily hold more when you consider that Petrobras is usually very conservative in its estimates." The Tupi oil is beneath an existing offshore oilfield under a layer of salt and is near Petrobras' main operations, so no major new installations will have to be built to get at the oil, Nunes said. While it is possible to drill off some existing platforms, other big fields have experienced setbacks, said John Parry, an analyst at John S. Herold Inc. in Norwalk, Connecticut. BP Plc's Thunder Horse in the Gulf of Mexico has been delayed since 2005 because

of storm damage and equipment failures. By providing more light crude to Brazilian refineries, Tupi will free up more heavy crude, similar to Venezuelan oil, for Petrobras' refinery in Pasadena, Texas, Nunes said. Tupi may have enough oil to supply all US needs for more than 14 months. Petrobras will have less need to export cheaper heavy crude and buy more expensive light crude to feed its refineries, which can't handle all the heavy oil the company produces. "All that light crude has the potential of turning Petrobras from a net exporter of oil into a truly self-sufficient company," Nunes said. In other words, Brazil could directly refine its light crude instead of having to export heavy crude in exchange for light. "Their refineries can handle the oil and they'll be saved the losses on trading and costs of shipping to make fuel for Brazil."

The firm Economatica estimated on Nov. 9 that Petrobras was the fifth-largest publicly traded company in the US, with a market value of US\$221.9 billion. The only companies bigger were ExxonMobil (US\$488.6 billion), General Electric (US\$394.3 billion), Microsoft (US\$325 billion), and AT&T (US\$238.6 billion). Tupi could also reduce US dependence on Venezuela, one of the country's main sources of imported oil. "It punches a bit of a hole in Venezuela's bubble," Parry said. "This certainly becomes a challenge to Venezuela, which is looking to get a Latin American coalition of countries together because Venezuela saw itself as the head honcho with the most reserves." Chavez publicly congratulated the government of Lula, calling him a "petroleum magnate" on the day of the Petrobras announcement. He said the two countries should unite to make a petroleum company that would sell products at subsidized prices around the region. He also noted, "Now Brazil can enter OPEC [Organization of Petroleum Exporting Countries]," of which Venezuela is a member and Ecuador recently announced it would rejoin (see NotiSur, 2007-10-19). Business and political analysts in the US have a tendency to underreport Lula's endorsements of Chavez's government. The two leaders' integrationist tendencies (see NotiSur, 2004-02-06, 2004-03-05, 2004-05-28 and 2005-05-20) may ultimately lead to better relations between the two countries. Analysts are watching to see what effect the development of the Tupi oil resources will have on government policy regarding ethanol fuels. The Lula government has been aggressively promoting the fuel a derivative of agricultural crops like sugarcane domestically and in numerous countries abroad (see NotiSur, 2007-04-27 and NotiCen, 2007-04-12 and 2007-08-16). This had put Lula at odds with leftist leaders in the region like Chavez and Cuba's Fidel Castro, who along with numerous nongovernmental organizations (NGOs) argued that putting food-crops prices in competition with skyrocketing fuel prices could lead to malnutrition. The Tupi discovery may eventually change Lula's policy emphasis on ethanol.