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Petrobras Examining Potential New Oil-field Discovery

Brazil's state-owned oil company Petroleo Brasileiro S.A. (Petrobras) may have discovered another site of massive offshore oil reserves just months after it announced the largest petroleum discovery in years (see NotiSur, 2007-11-30). If tests show that the offshore deposit in the Espirito Santo field in the Atlantic Ocean contains as much as early reports claimed, it would be the world's third-largest reserve and the world's biggest discovery in decades. Carioca four times bigger than Tupi? In the final months of 2007, Petrobras announced the discovery of 5 billion to 8 billion barrels of oil and natural-gas reserves at the offshore Tupi field. The discovery had the potential to make Brazil one of the top 10 oil producers in the world, the company said. Press reports soon followed saying an even bigger field might be nearby.

Petrobras also announced a blockbuster find of natural gas in February in an Atlantic Ocean field nicknamed Jupiter. If proven, the oil in the exploration area called both Carioca and Sugarloaf Mountain by analysts would also be four to five times larger than the Tupi oil field. The deep-sea find by Petrobras could yield 33 billion barrels in reserves. Further tests are required to assess the scale of the find, off the coast of Rio de Janeiro, but analysts say it could have significant implications. The US Energy Department says Brazil's existing proven oil reserves total 11.8 billion barrels, while the US holds 21.8 billion. "You're talking about a reserve the size of total US reserves," said Tim Evans, an analyst with Citigroup Inc. in New York. "It's a big, big number." The Agencia Nacional do Petroleo (ANP) said statements by its president Haroldo Lima on the find were based on unconfirmed sources. But if the reserves are proven in the coming months, they would triple Brazil's known petroleum resources and make the country the world's number-three reserves-holder. The only larger reserves are Ghawar in Saudi Arabia and Kuwait's Burgan. Even if the reserves are confirmed, it is likely to take ten years before the latest find can be turned into significant supplies. Petrobras has reported plans to begin significant development projects for its Espirito Santo fields. Lima's agency regulates Brazil's oil industry, and his comments appeared to corroborate what experts had long suspected: extremely deep exploration areas hundreds of kilometers off the nation's coast may hold potentially huge reserves. While Lima cautioned that his information on the field was unofficial and needed to be confirmed, his comments sent Petrobras shares soaring in New York and Sao Paulo, with Petrobras' increases sending the Sao Paulo exchange Bovespa upward after the announcement.

Around the time the big find was made public, offshore-drilling contractor Seadrill announced six-year contracts with Petrobras worth US\$4.1 billion for services by three offshore drilling rigs. The company said the location cited by Lima was made up of two exploration areas in one bloc where test wells are being drilled and geological studies are under way with Petrobras' partners for the bloc, Britain's BG Group and Spain's Repsol YPF. "More conclusive data about the potential of the discovery will only be known after the conclusion of the other phases of the evaluation process, and the market will be informed at the opportune moment," Petrobras said in its statement to Brazilian securities regulators after Lima made the comments. If confirmed, the find could have far-reaching global energy ramifications. Industry experts say the Tupi and Jupiter fields alone could turn Brazil into a major oil and gas exporter and lead to it joining the Organization of Petroleum Exporting Countries (OPEC).

Regionally, some analysts have conjectured that the influence of Venezuelan President Hugo Chavez could decline as Brazil's petrostar rises, but international media have tended to exaggerate differences between Chavez and Brazil's President Luiz Ignacio Lula da Silva, even as the more moderate Lula has avowed his support for Chavez.

Petrobras is renowned for its deep-water drilling ability and is widely regarded as one of the best state-run oil companies in the world. Will Brazil eventually end light-crude imports? Brazil became self-sufficient in oil production in 2006 but must import light-crude oil for the refined products it needs. The country produces and exports mostly heavy-crude oil, which has to be mixed with the light oil in refineries. While the potential Brazil find could add significant supplies to a global oil market many see as tight, it would likely take the better part of a decade before any of the oil finds its way to market. The site will need to be studied further, and drilling platforms must be designed, built, and transported before it can start producing oil. However, it could cast new doubt on peak-oil theory, which postulates that world oil demand will soon outpace supply. It is impossible to say whether more 33-billion-barrel oil fields exist under the sea, Citigroup's Evans said. "Nobody really has data on what's out there in the middle of the ocean," he said. Petrobras is running a significant deficit as it seeks to invest heavily in development projects. Petrobras' trade deficit, or excess of imports over exports, may be US\$475 million this year, said Paulo Roberto Costa, head of refining and supply at Petrobras on April 25. The expected deficit in its crude-oil and refined-fuels trading account compares with surpluses of US\$72 million in 2007 and US\$421 million in 2006, Costa told reporters at the company's Rio de Janeiro headquarters. Petrobras slipped into deficit in the first quarter as Brazil's growing economy boosted diesel imports and part of a Sao Paulo refinery was shut for repairs, he said. The company may be able to exceed his expectations if rising Brazilian ethanol use allows it to export more gasoline and new offshore oil fields begin production on schedule. "The economy is growing, and that has driven up demand for diesel, a fuel we don't produce enough of in Brazil," Costa said. "I'm confident that we still have a chance to reverse the current trend and end up in surplus by the end of the year." The 2008 forecast is based on the company's net import of 626,000 barrels of crude and refined fuels in the first quarter, a deficit worth US\$775 million, according to a statement distributed to reporters by Petrobras. In the same period a year earlier, Petrobras exported 16.8 million barrels more than it imported for a surplus of US\$528 million. None of the figures include natural gas, Costa said. Based on that forecast, the company expects to import 27.1 million barrels more of fuels and crude than it exports this year. A new coking unit at Petrobras' refinery in Duque de Caxias, near Rio de Janeiro, should be complete by year end, increasing capacity to refine heavy crude and reducing the need for imports.

Use of ethanol, which surpassed gasoline in February, will free up more gasoline for export to South and Central America, Africa, and the Middle East, Costa said. Petrobras earns more for its gasoline abroad than it does domestically, where it has not raised the price of domestic gasoline since September 2005. On April 30, the company said it might massively increase bond sales to fund development. "We want to become a more frequent issuer" over the next four years, chief financial officer Almir Barbassa said in an April 17 interview. Barbassa spent three months courting investors from Boston to Bahrain as the company prepared to sell US\$3.6 billion in bonds this year. Petrobras issued less than US\$800 million, on average, from 2001 through 2007. Military pushes for nuclear sub In addition to economic ramifications, the discoveries may change the face of Brazil's military forces. The discovery of the Tupi reserves

justified Brazil's plan to build a nuclear submarine because it would be used to protect the find, Defense Minister Nelson Jobim said in November at a defense conference in Rio de Janeiro. "When you have a large natural source of wealth discovered in the Atlantic, it's obvious you need the means to protect it." Jobim said Brazil must safeguard the Tupi field from other nations and from "actions that could come from the area of terror," the government's Agencia Brasil news service reported. Jobim had said earlier in November that he wanted to come up with an outline within three months to build a submarine for about US\$1.2 billion, the Agencia Estado news service reported. Brazil had been talking about building a nuclear submarine for decades, but the project got a boost in July 2007 when Lula announced US\$540 million in funding for uranium enrichment and the sub program.

Brazil has no South American enemies and has not experienced terrorist attacks, although US government reports have sporadically raised suspicions that the nation's triple border region near Argentina and Paraguay is a fund-raising source for Islamic groups such as Hezbollah and Hamas. The Brazilian Navy's nuclear program, begun in 1979, has already mastered part of the uranium-enrichment process. But it lags in developing and constructing a submarine reactor entirely from Brazilian technology. Lula has frequently touted nuclear power as a way to diversify energy sources and meet growing demand in South America's largest nation and economy. His government moved in June to restart work on a long-planned third nuclear power plant that has been stalled since the 1980s by lack of funds. Jobim ridiculed the idea that Brazil's uranium-enrichment program would ever be used to make a nuclear bomb. "That's total nonsense," he said.