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# Is Government Interference Hampering Petrobras?

Inter-American Dialogue's Latin American Energy Advisor

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***Q and A: Is Government Interference Hampering Petrobras?***

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Some investors, concerned about government meddling and profitability at Brazilian oil giant Petrobras, have shifted interest away from the state-run company to startup companies that include OGX Petroleo and HRT Participações, Reuters reported May 25. How significant of a problem is political interference for Petrobras and what effect does it have on profitability? What has been the effect of pre-salt regulations on the country's ability to efficiently develop the fields? Is the outlook for the new crop of oil start-ups as rosy as some investors paint, or over-hyped?

**A: Paulo Valois, partner at Schmidt, Valois, Miranda, Ferreira & Agel in Rio de Janeiro:**

"Political interference has always been an issue in any oil company controlled by the government. Like most of the national oil companies (NOCs), Petrobras' decisions are influenced by governmental policies and trends. However, the fact that Petrobras has shares traded in the stock exchange in Brazil and elsewhere imposes on its management a variety of corporate governance rules and principles that protects the company from stronger political interference. Pre-salt regulations are not yet finished, since a piece of legislation (which must deal with the royalty allocation among the states of the federation) is still being debated in Congress. However, it seems to me that Petrobras, as the sole operator of the new pre-salt areas, will need to make stronger efforts to raise the funds needed to develop the fields through project finances and partnership with other IOCs or NOCs. I believe that there will be opportunities in the pre-salt. We need to see if these opportunities will be sufficiently attractive to prospective players, which shall mandatorily hold a nonoperating minority stake in the areas. I believe that the upstream model approved by the Brazilian government will pass its first test when future bidding rounds start to offer areas located in the pre-salt layer. I am not sure when the Brazilian government will be in a position to call a bidding round for the pre-salt."

**A: Kirk Sherr, president of Regester Larkin Energy:**

"Government interference in Petrobras' operations is not a new problem, but it may be worsening as the volume of Brazilian reserves increases. Clearly, Petrobras has the technology and human capital necessary to develop the pre-salt oil fields. But, do they have enough of both to do so successfully with so many partners? Further competition for human resources will come from start-ups, service companies and international operators. The legislative measures which gift the

company with a 30 percent stake in all joint ventures and the role of sole operator in 'strategic' areas complicate foreign companies' involvement in pre-salt development. Simply put, Petrobras cannot do it alone, but national control over all energy development may stifle competition and further increase inefficiencies. Petrobras' role as sole operator, for example, may limit the exchange of experience among other developers in the pre-salt fields. To cite another example, Petrobras recently began the bidding process for 21 new drilling rigs, stipulating that their origins be Brazilian, resulting in higher rig prices and delays in oil exploration and production. As the Brazilian government meddles further with Petrobras, it is understandable that local start-up companies would begin to address upstream E and P opportunities, especially in shallow water areas and the Amazon. With oil production in Brazil expected to triple by 2020, foreign companies and local start-ups are likely to steadily increase their presence in the Brazilian oil industry. Their involvement, however, will come with plenty of Petrobras' strings attached."

**A: Álvaro Ríos, partner-director of Gas Energy Latin America, director of DIInternational for Latin America and former minister of hydrocarbons of Bolivia:**

"The oil and gas sector in Brazil was moving in the right direction until the pre-salt discovery and then heavy political issues got involved. Granting exclusive rights for being an operator and having to have a 30 percent stake in each operation complicated things for Petrobras. Now Petrobras has too many eggs in one basket with a very expensive development plan that is limiting activities in other more economical places around the world like, for example, getting heavily involved with unconventional developments, as many major oil companies are doing."

*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [kuleta@thedialogue.org](mailto:kuleta@thedialogue.org) with comments.*