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Gregory Scruggs

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Environmentalists Cheer Failed Brazil Oil Auction

by Gregory Scruggs
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As global oil prices remain in the dumps and Brazil’s state-owned petroleum company Petrobras reels from a corruption scandal (NotiSur, April 10, 2015, and Aug. 14, 2015), an October auction of exploratory oil blocks yielded little interest from major multinational corporations. The low-demand auction was a historic failure for a country whose recent economic boom—now in the throes of recession—was predicated on natural resources, especially oil. None of the blocks sold at auction included the much-hyped offshore pre-salt layer (NotiSur, Jan. 9, 2009, and July 12, 2013), whose discovery in 2009 prompted then President Luiz Inácio Lula da Silva (2003-2011) to declare the find "a new Independence Day for Brasil."

Environmental groups, notably Greenpeace Brasil, had agitated against any sales in the days leading up to the auction, held Oct. 7 in Rio de Janeiro. They were protesting both the extraction of fossil fuels writ large and planned exploration in sensitive ecological areas of the Brazilian Amazon, including on land adjacent to indigenous populations.

However, the Amazon’s reprieve from further extraction did not come from a principled stance against drilling on indigenous land but rather for economic reasons. Nevertheless, both Greenpeace and the Ministério Público Federal of Manaus, the Amazon’s largest city, have called for the region to be excluded from future auctions.

Petrobras absence

Only 37 of the 266 blocks on sale by the Agência Nacional do Petróleo, Gás Natural e Bicombustíveis (ANP) were sold to bidders that included major multinationals like ExxonMobil Corp., BP PLC, and Royal Dutch Shell PLC. This outcome was the worst result in years for the auctions, which in the past have been hotly contested in a country that has the world’s 15th-largest proven oil reserves. This year’s auction, the first since 2013, only brought in R$121 million (US$31 million) in signed contracts, with an expectation of R$340 million (US$87 million) in eventual investment.

"We have a very strong conviction that the current price of oil had a decisive impact," said ANP director Magda Chambriard. Benchmark US crude-oil prices are still below US$50 per barrel, down from a June 2008 high of US$146 per barrel just as Brazilian production began to ramp up.

"The feeling is one of frustration," said Aluizio Dos Santos, president of the Organização dos Municípios Produtores de Petróleo (Ompetro), in comments to Reuters during the Rio auction.

There was ample rationale for the frustration, according to Adriano Pires, director of Rio-based consultancy Centro Brasileiro de Infra Estrutura (CBIE). "There’s an abundance of oil in the world, and revenue [at the big oil companies] has fallen a lot," he said. "The government and the ANP didn’t change any of the rules from earlier auctions, for example the one regarding local content, and that reduced the interest of the big companies."

The local-content rule requires purchasers of oil blocks to procure a minimum amount of equipment from Brazilian providers rather than importing their own. Companies have protested that this
makes oil development in Brazil too expensive. In September, Mexico relaxed such rules in its second lease auction this year, which attracted more successful bids than its initial attempt in July with similar local content rules (SourceMex, Oct. 14, 2015).

But the most obvious reason for the weak showing was the absence of Petrobras, the state-owned oil company that has been mired in a corruption investigation, which has saddled it with an enormous debt load of US$130 billion. It is the first time that Petrobras has not participated in the national oil auction. In a comment before the auction, the company stated that the blocks in question were not worth bidding on.

Ultimately, Brazilian oil start-ups snapped up most of the few blocks that were sold, rather than larger global players. None of those sold were offshore blocks under the pre-salt layer, the discovery that propelled Brazil into the ranks of the world’s top potential oil exporters. The pre-salt refers to huge oil reserves in very deep water buried under a thick salt layer, which requires sophisticated extraction technology and specialized platforms. The remoteness of these oil reserves adds to the cost of extraction, which has made them less viable in a depressed oil market.

**Amazon Threatened**

In addition to no winning bids for the pre-salt blocks on auction, seven blocks in the Amazon basin were on the table. On Oct. 1, Greenpeace Brasil launched a boat in Manaus at the confluence of the Rio Negro and Rio Solimões, whose confluence forms the Amazon River, with a banner reading "Leave fossil fuels in the ground."

Greenpeace Brasil called the auction a "double disaster." In a note on its Web site, the environmental advocacy group said, "In addition to being a clear incentive for dirty and polluting energy sources, the onshore exploratory blocks are located in ten large hydrological basins." The nongovernmental organization (NGO) also noted that the auction considered blocks of shale gas in the Amazon, which require the use of a process known as hydrologic fracturing, or fracking, that has been at the center of controversy about natural-gas extraction in the US.

In addition to environmental risks, Greenpeace Brasil underscored social concerns as well, given the proximity of several blocks at auction by ANP to indigenous land in the Amazon. When the ANP announced the auction in June, the news agency Amazônia Real reported that the petroleum agency did not consult the Fundação Nacional do Índio (FUNAI), the federal entity that represents indigenous rights.

On Sept. 1, indigenous groups from the Vale do Javari in the state of Amazonas met with representatives from ANP at the FUNAI headquarters in Brasília. Although ANP general director Sílvio Jablonski affirmed that no leases would be given directly on indigenous land and that in some instances the ANP had adjusted the boundaries of oil-lease sites on the recommendation of FUNAI, indigenous leaders were not impressed. They recalled the history of Petrobras’ exploration in the region during the 1970s and 1980s, which wreaked havoc on local indigenous communities.

"We are here so that this doesn’t happen again. We want a free territory, without development, and this has to be respected," said Clóvis Marubo from the village of São Sebastião.

Chief Mayuruna of the village of Lobo added, "We don’t want them to interfere with our hunting, our land, or that they dirty the headwaters of our rivers where we get our water, and we don’t want anyone’s money. We want our territory and for them to stop with these activities." They cited oil
exploration on the Peruvian side of the Amazon, which has threatened fellow indigenous groups, as a precedent not to be repeated in Brazil.

Greenpeace Brasil hailed the lack of any bids on the sensitive blocks. "The Amazon comes out relieved from the oil and gas auction," said Thiago Almeida of the NGO’s climate and energy campaign in a statement on Oct. 7. "It’s a victory for everyone. The Amazon was delivered from suffering oil, natural gas, and shale exploration on its soil. At least for now."

However, the environmental group went on to point out that Brazil’s 10-year energy plan calls for 70% of energy investments to occur in fossil fuels and called for a 100% renewable energy plan in the country.

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