Much to do

The CEO of the agency managing the deep sea oil exploration contracts updates FGV Energy staff on how the area is progressing.

Solange Monteiro

FALLING OIL PRICES and unfolding investigations of corruption at state oil company Petrobras have the market concerned about their impact on exploration of the deep sea oil deposits. Given the immense complexity of managing the large deep sea reserves, there are many issues that if not addressed may upend investment and production in the oil and gas sector.

Pre-Salt Oil SA (PPSA) was created by the government just over a year ago to manage deep sea exploration contracts. In addition to managing the first oil sharing agreement—for Libra block, which has estimated reserves of 8-12 billion barrels—the PPSA is also managing contracts related to new discoveries outside the limits of the deep sea oil field in the Santos Basin. These new reserve discoveries are being treated in individual agreements in which the PPSA represents the federal government. “We have ten agreements in progress, and we should start negotiating another nine agreements this year,” Oswaldo Pedrosa, CEO of the PPSA, said.

Pedrosa was the guest at the March meeting of Energy in Focus, sponsored by FGV Energy in Rio de Janeiro. In his presentation he acknowledged that investigations of corruption at Petrobras and the plunge in oil prices—which fell 45% from June to December 2014—will affect deep sea exploration and production. “At the very least, the pace of development of the deep sea oil field will not happen as planned,” he said. He added that the current low oil price outlook is forcing a reorganization of production similar to that other oil companies around the world: “It will be necessary to seek better profitability, increase the recovery of oil reservoirs, and reduce costs.” Pedrosa also pointed out that the current environment offers an opportunity to expand the share of gas associated with deep sea oil production to improve cash flow: “There are many alternatives, from extension of pipelines to onshore electricity generation. The technology is available. There is the option for liquefaction of gas because today, worldwide, LNG is considered to be the major mode for packaging energy that will transform gas into a real tradable commodity.”

Pedrosa pointed out that the market expects oil prices to recover over a period of 12 to 18
months, although not to the previous level. “Several international financial institutions indicate that by the end of 2016 the price a barrel should reach US$83 to US$96,” he said. “Anyway, this is not a scenario that should worry us. … Deep sea oil exploration is just beginning, and the bulk of its production will occur in the next decade,” he said. He noted that deep sea oil production is expected to peak in about 2030 at 4 million barrels of oil and 140 million cubic meters of natural gas daily. Of total oil produced in 2030, the PPSA estimates that the share of the federal government will be 700,000 barrels a day. The calculation takes into account a price of US$100 per barrel of crude oil.

In his presentation, Pedrosa also emphasized the importance of ensuring continuity of the supplies contracted for deep sea oil exploration, reminding the audience of the delicate financial situation of the shipbuilding industry and layoffs in recent months by shipyards and manufacturers of machinery and equipment. A study by the Federation of Industries of the State of Rio de Janeiro released in late March estimated that the threat of stoppage of investments in the oil and gas sector could cost US$60 billion—US$20 billion in Rio de Janeiro State alone. Pedrosa gave as an example demand for floating production storage and offloading (FPSO)—vessels located near an oil platform, where oil can be processed and stored until it can be transferred to a tanker for delivery. So far 22 FPSOs have been contracted for. “We estimate, however, that there will be demand of 70 FPSOs by 2030. We need to ensure continuity,” he said. He also argued for the need to align local supply capacity to demand, and emphasized that current low oil prices require that local suppliers be internationally competitive: “We need to have stable rules, enforce contracts … But the important thing, what is essential, is that Brazil’s oil potential is unique.”

“Uncertain future

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