The Brazilian Oil and Gas Industry
ROYALTIES

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Overview

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— Final Comments
✓ Area – 8.5 million Km²

✓ Population (2011) – 192.4 million

✓ Gross domestic product (GDP) (2011) U$ 2.1 trillion

✓ World’s sixth largest economy

✓ Political, Economic and Regulatory stability

✓ Investment grade (Moody’s, Fitch and Standard and Poor’s)

✓ Biofuels, Oil and Natural Gas regulated under the same institutional environment (ANP)
Oil Proven Reserves (Billion bbl)

Gas Proven Reserves (Billion m$^3$)
39 national companies

39 foreign companies

78 companies in oil and gas exploration and production.

53 companies are already producing oil and gas.
Brazilian Oil and Gas Scenario (2011)

- 38 sedimentary basins
- 29 basins are relevant to the oil and gas sector
- ~ 7.5 million km$^2$
- 4.5% granted

- 314 exploration blocks
- 411 fields in production or in development phase
- 27,053 wells drilled
Pre-Salt areas under Production Sharing Agreements (~ 2.3% sedimentary area)

Onerous Assignment Agreements - 7 blocks (~ 0.7% sedimentary area)

Concession Agreements (~ 97% sedimentary area)
Recent discoveries in Pre-salt Area will transform Brazil into a crude oil exporter.

No current E&P activities on the outer continental shelf have been done yet.
The Brazilian Pre-Salt Areas

Post-Salt Layer
Bears most of Brazil’s reserves.

Salt Layer
An irregular layer, the thickness of which ranges from 1000 to 2000 meters.

Pre-Salt Layer
On account of its geological characteristics, the pre-salt marks the beginning of a new exploratory model, one that will involve the use of technology that is more resistant both to corrosion and to high temperatures and pressure.

Created a new national oil company called Pré-Sal Petróleo S.A. (PPSA) which represents the Federal Government in PSAs.

Established the Onerous Assignment Agreement which grants to PETROBRAS the right to produce up to 5 billion bbl in certain pre-salt areas.

Law No 12,304/10

Law No 12,351/10

Law No 12,276/10

Law No 9,478/97
Concession Agreement (CA)
- Royalty
- Signature Bonus
- Rental Fees
- Special Participation
- Landowners Fees
- 10 bid rounds

Onerous Assignment Agreement (OAA)
- Royalty
- Agreement signed with PETROBRAS

Production Sharing Agreement (PSA)
- Royalty
- Signature Bonus
- Oil profit share
- Landowners Fees
- No bid rounds yet
Royalties

- Paid by firms and calculated for each producing fields.
- Paid and distributed monthly.
- Percentage of the produced volume.
- Calculated over gross revenue.

\[ R = V \times RP \times P\% \]

- **R** – Royalty
- **V** – Volume
- **RP** – Reference Price
- **P\%** – Percentage

Percentage is:
- 10% for Concession Agreements, 5% to very small producers.
- 10% for Onerous Assignment Agreements.
- 15% for Production Sharing Agreements.
Volumes for Royalties

Royalty is applied to the total produced volume of oil and gas.

Metering points are defined in Field Development Plan, approved by ANP.

Gas flaring is authorized by ANP and subject to royalties (Res. ANP 249/00).

Some gas volumes are exempt of royalties (proven operational need).

Daily Production is monitored on line by ANP Production Audit System.

PRODUCTION AUDIT SYSTEM (SFP)
**Oil Prices**

Prices set by international market.

The oil market is mature.

*Reference Price is the highest between Sales Price and Minimum Price*

Sales Price checked on invoices.

Minimum price set by ANP (Res. 206/2000), based on TBP\(^1\) Curve.

Minimum Price is calculated based on oil products prices quoted at Platt’s.

If there is no sale, Minimum Price must be applied.

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**Gas Prices**

Prices set by regional markets.

Brazilian gas market is still being formed.

*Reference Price is the Sales Price. If there is no Sales Price, PRGN is used.*

Sales Price checked on invoices.

PRGN\(^2\) is defined by ANP (Res. 40/2009).

No minimum price.

PRGN is calculated based on gas products prices quoted at Platt’s

PRGN is based on the gas chromatography.

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1. TBP Curve - True Boiling Point Curve

2. PRGN – Acronyms in Portuguese for natural gas reference price
Financial/Document Flows

Collected by STN (Brazilian National Treasury)

Audited by ANP (Regulatory Agency)
Petroleum Fees (US$ billion)

Estimated for 2020: US$ 80 billion

- Royalties
- Special Participation
- Rental Fees
- Signature Bonus
Due to Pre-salt, Brazil will become an exporter of oil and gas in the near future.

Brazil has a consolidated system to set the royalties prices of oil and natural gas.

Brazil has a body (ANP) with powers to collect and distribute royalties.

The criteria for the distribution of royalties are under discussion in the Brazilian Congress to benefit also non-producing areas.

Brazil is experiencing a special moment for the oil and gas industry.

We invite you to know the way we regulate our oil and gas industry !!!

There are plenty of opportunities, the FIFA Confederations Cup next year, the World Cup in 2014 and the Olympic Games in 2016 !!!
THANK YOU!

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