

Brazil boosting state control for new oil finds Associated Press Financial Wire August 31, 2009 Monday 10:18 PM GMT

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HEADLINE: Brazil boosting state control for new oil finds

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DATELINE: SAO PAULO

BODY:

Brazil's president pledged to exert more state control over immense offshore oil finds and funnel profits toward social spending, proposing new rules Monday for foreign investors needed to tap deeply buried reserves.

The plan will significantly expand the state oil company's power over development of the fields and provide for a fund to help alleviate persistent misery and improve education and technology, President Luiz Inacio Lula da Silva said.

He called Brazil's discovery of new reserves "a passport to the future," if handled properly.

"It's richness explored and administered well can bring great changes to Brazil," said Silva, unveiling a plan that still needs approval from Congress.

Investors punished shares of Brazilian oil company Petroleo Brasileiro SA after the company announced that it may sell new shares to finance development of the oil fields, a move that could dilute the value of existing shares held by investors.

Petrobras' American depository shares sank 4.4 percent, or \$1.83 to \$39.64 on the New York Stock Exchange.

Mines and Energy Minister Edison Lobao said the rules include the creation of a new agency called Petrosal to oversee the 50 billion to 100 billion barrels of oil that lies deep under the ocean floor off the coast of Rio de Janeiro.

The agency will also determine foreign investment and participation in extraction.

Silva also announced an infusion of as much as \$50 billion into Petrobras to strengthen the state-run oil company and increase the government's stake as the company gears up for costly extraction.

Silva said that an oil-backed government fund will invest in education, science, technology and social programs to lift millions of Brazilians out of poverty. He did not disclose details.

Petrobras said a statement to regulators that it would become the only operator of blocs in the new oil zone and that it will have a minimum 30 percent stake in each one.

Critics said the new rules could hold back Brazil from becoming a major global oil exporter by limiting potential income by foreign partners that are crucial to retrieving the oil.

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"While the government's decision is understandable in light of the troubled history of foreign oil interests operating in developing nations, it may nevertheless inhibit development of the region and deter foreign investment," said David Cassuto, a property law expert who runs the Brazil-American Institute for Law and Environment at Pace Law School in New York.

Some experts predict a lengthy legislative battle as states where the oil lies vie for royalty benefits, while Silva wants to spread the oil windfall across the entire nation of more than 190 million.

Sen. Sergio Guerra, leader of the opposition Brazilian Social Democracy Party, said the proposal will find "strong resistance" in the Senate.

Other opposition politicians said Silva's plan is a political ploy to try to give his Workers Party a big edge in next year's presidential and congressional elections.

The discovery of the oil in 2007 came after Brazil spent decades developing alternative energy as an issue of national security following severe energy shortages in the 1970s.

The nation uses hydroelectric power for more than 80 percent of its energy needs and is the world's largest exporter of ethanol. Nine of every 10 cars sold in the nation can run on ethanol or a combination of ethanol and gasoline.

Thirty years ago, more than 85 percent of Brazil's oil came from foreign sources. Today, it is a net exporter.

The newly found fields lie more than a mile below the ocean's surface and under another 2.5 miles (4 kilometers) of earth and salt.

Brazil has rebuffed invitations to join the Organization of Petroleum Exporting Countries since the fields were discovered, saying it has no plans to export crude from the new fields, but instead turn it into value-added petroleum products.

"Brazil does not want and will not turn itself into a mega-exporter of crude," Silva said. "To the contrary. We'll accumulate the value of the oil here, and export derivatives like gasoline and petrochemical products."

Associated Press writer Bradley Brooks in Rio de Janeiro contributed to this report.

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