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HEADLINE: Brazil eyes production sharing to tap offshore oil

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BODY:

NEW YORK (MarketWatch) -- Petrobras on Monday filed a plan with Brazilian regulators to own 30% of wells proposed for the country's rich offshore oil reserves, according to the oil giant.

Brazilian President Luiz Inacio Lula da Silva announced a series of oil measures on Monday, proposals that must clear the country's legislative branch.

Petrobras plans to issue an undetermined number of shares to raise funds for its development of offshore reserves, but no further details are yet available, according to reports.

The proposals mark a major step toward developing what's arguably been the largest major oil discovery in decades in the Western Hemisphere.

Brazil is embarking on a similar production-sharing model used in the Middle East and elsewhere to hold on to most of the barrels of oil within its borders and divvy up a smaller slice of the riches with oil majors based overseas.

Petrobras (PBR) will either be contracted directly to develop subsalt blocks currently under government control or offer them up for auction.

Foreign oil companies will be permitted to participate in the auctions, but Petrobras will retain the role of lead operator in all new wells. Brazil's government will also create a new state-owned holding company called Petrosal to manage the projects.

U.S.-listed shares of Petrobras shares fell 4.4% to close at \$39.64, as prices for crude-oil futures fell back below \$70 a barrel.

S&P Equity Research reiterated its buy rating on Petrobras and said Wall Street is awaiting further detail on the plans.

"While Brazil would like control over these massive finds, we expect technical and financial challenges in their development will force varied participation by foreign oil firms, and think some production may not be realized for years," S&P Equity Research analyst Tina Vital said in a note to clients.

Renato Bertani of energy company law firm Thompson & Knight and a former president of Petrobras America, said U.S.-based oil majors such as Exxon Mobil (XOM) and Chevron Corp. (CVX) will be interested in participating in future auctions.

"The potential rewards are enormous," Bertani said. "There will be competition for sure. It's not the ideal model, but the industry is used to investing under this structure."

Bertani said the proposal from President Lula will mark the beginning of a "long debate" within the country over how much of a share the individual states will receive as opposed to Brazil's federal government.

The structure of Petrobras itself is under scrutiny as well, since the oil major is 70% owned by private individuals despite the government's voting majority, he said.

Giving Petrobras exclusive control as operator of all the new offshore wells may not be a good idea, Bertani said.

"I have no doubts that Petrobras is an extraordinary company. They're prepared to operate in deep water," he said. "But giving them exclusivity is not good for the market. Other operators would help bring in other technologies or management, and it's always good to have a pool of operators rather than an exclusive operator."

Still, the measure by the Brazilian government drew cautious comments from David Cassuto, professor of law at Pace University and director of the school's Brazil-American Institute for Law and Environment.

"The Brazilian government's decision...reveals a strong protectionist streak that may prove detrimental," Cassuto said. "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."

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