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Petrobras to Lose Grip on Brazil's Gas Market

Brazil has announced sweeping plans to loosen state-controlled Petrobras' grip over the gas market with the aim of bolstering competition. The program is designed to boost gas production and bring down prices, and forms part of attempts by the government of right-wing President Jair Bolsonaro, who took office on Jan. 1, to introduce free market policies across the economy.

The liberalization guidelines, which will take years to implement, include unbundling gas supply from transport and distribution to encourage more upstream investment. Ana Maria Jaller-Makarewicz, director of UK-based energy consultancy JallMak, says they will force Petrobras "to grant access to offshore gas transport infrastructure and to processing plants in a 'nondiscriminatory and transparent' fashion." Producers would no longer have to sell their output exclusively to Petrobras, but into the general market.

The guidelines were approved by the national energy policy council, or CNPE, after the Brazilian Congress failed to pass a new gas law. "This is not properly an overhaul, but a set of guidelines for the openness of the Brazilian gas market program, the so-called 'Novo Mercado de Gas' [New Gas Market], which incorporates many initiatives of the 'Gas for Growth' program that started in 2016," consultancy Wood Mackenzie's principal analyst for Latin American gas and LNG, Mauro Chavez, says. "Considering that the new gas law project didn't pass in the Congress, the Ministry of Energy and Mines together with the support of the Ministry of Economy are implementing these initiatives infra-legally with the Gas Law of 2009. Of course more could be done with a new gas law, but this presidential decree is still a good framework."

Brazil's 1997 Petroleum Law and 2009 Gas Law marked the first steps in gas market reform, but Petrobras has effectively retained a monopoly over the sector. It accounts for around 80% of production and supplies more than 90% of consumption; controls and operates almost all offshore pipeline and all processing plants; books nearly all existing transport capacity; and holds shares in most distribution companies. According to the International Energy Agency, around 97% of all gas volumes in the wholesale market are traded on the basis of long-term contracts with Petrobras, giving it huge control over prices.

Brazil is the fourth-biggest gas producer in Central and South America, with output of 25.2 billion cubic meters (2.4 billion cubic feet per day) in 2018 — 7.4% less than in 2017 — and the second-largest consumer after Argentina. Observers say the Petrobras price regime has not stimulated growth. Consumption fell 4.6% year-on-year to 35.9 Bcm in 2018, according to BP, nearly 7 Bcm down on its 2015 high. Power-sector demand has been flat, or declined some years, due to high end-user prices.

The new rules could have implications for LNG imports. Brazil imported 1.86 million tons in 2018, 15% up on the year before because of hydropower shortages, according to the GIIGNL group of LNG importers (WGI Nov.28'18). Medium term, Chavez says, LNG imports could drop as the market will have more access to domestic gas produced by third-party players, most associated gas from pre-salt formations. "However, in the long term this is positive for LNG as well, as with competitive prices of gas, transport and distribution, gas demand will be boosted and LNG will be needed to fill the gap between increased demand and domestic gas production."

Energy and Mines Minister Bento Albuquerque has said the goal is to bring down gas prices in two or three years. But if economic growth picks up, Claudio Steuer, senior research fellow at the Oxford Institute for Energy Studies, believes there is a risk of energy shortages and/or higher prices shorter term. While it might take two to five years to develop energy infrastructure such as pipelines, gas processing facilities and power plants, it could be between five and 10 years before the new rules "deliver on the promise of transparency" and "competitive energy supply," he says. The cumbersome tax system needs an overhaul, states have to "promote unbundling and greater competition in the licensing and concession of energy-related activities within their borders," and companies with federal and state shareholdings will have to be partly or wholly privatized. "This is a gradual process which could take a decade," Steuer says — and private investors who move early will capture the best opportunities. ■

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