



E&P Firms in Brazil Announce Oil and Gas Blocks for Sale

Regina Cunha
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Introduction

Petrobras continues to be the dominant exploration and production (E&P) player in the Brazilian market, accounting for over 90% of production of domestic crude oil and natural gas liquids in 2014. The state-owned firm won 43 out of 72 blocks available in the 12th round of licensing held in November 2013. However, as is typical for exploration and production (E&P) firms worldwide, many E&Ps operating in Brazil announced a number of blocks for sale in late 2014. Financial restrictions, revisions to company strategy, difficulty diversifying portfolios, and lessening exposure to risk were listed as the primary reasons for the change in activity.

Both onshore and offshore blocks opened for sale, including basins in Recôncavo, Potiguar, Pernambuco-Parnaíba, Santos, and Campos. The majority of the offers came from [Angolan Sonangol](#), [American Anadarko](#), [Australian Karoon](#), Brazilian [Petra Energia](#) and [Canadian Niko](#), as reported by [Brasil Energia magazine](#). Overall, the downturn in the oil and gas sector in Brazil may be affecting the price of these assets. As a result, some E&Ps are rethinking their strategies. U.S. companies interested in understanding the status of these sales should check company websites as a number of companies have withdrawn or revised their offers.

Ouro Preto

The buyer's market helped the Brazilian firm [Ouro Preto](#) acquire the Brazilian assets of American firm [El Paso](#) last summer. The sale of approximately US \$100 million involved a total of four offshore assets, two active and two in development, in the Camamu and the Potiguar basins.

In October 2014, the assets available for sale officially included 59 exploratory projects and more than four production blocks. Projections indicated that the total amount of the sale was greater than US \$1 billion. Since then, Karoon has officially withdrawn its initial public offering. Other companies may or may not follow suit.

Ecopetrol

[Columbian Ecopetrol](#) has reported that it is negotiating the sale of 40% of its stake in the Amazon (F2A-320 Block) and the Potiguar Basin (Block POT-M-567).

Niko

In October, Niko Resources sought to sell both of its two offshore assets in the Pernambuco-Paraíba basin, PEPB-M-621 and PEPB-M-729, where it has a 30% share in each area. The process of the Brazilian sale began in August and was evaluated for about 10 companies. As of

December 2014, Niko Resources was searching for strategic alternatives, including possible buy-outs or a merger.

Niko Resources won the two blocks in May 2013 and signed the contracts in September 2013. They were sold in partnership with Petra, who holds a 70% share in them, for a total value of R\$ 707,043 of which Niko holds approximately R\$ 212,112. The blocks are in deep waters with a depth of 500-3500 meters and are located 45 kilometers of the coasts of João Pessoa (PEPB-M-621) and Recife (PEPB-M-729).

Karoon

In October, Karoon intended to sell part of its 65% share of a pool of blocks in shallow waters around Santos basin, but in November it canceled the IPO after observing the lower-than-expected sales other Brazilian firms had made. Karoon stated that the blocks show strong potential and as such are not willing to drop the price.

Petra

After an internal crisis, Petra Energia re-evaluated its business model in Brazil, and sought to sell or farm-out its entire assets portfolio, which, as of October 2014, included 48 exploratory projects throughout the Amazonian, São Francisco, Tucano, Paraná and Pernambuco-Paraíba basins. Petra Energia has not updated the sale as of early January, 2015.

Among the various sites that could be sold are 15 blocks in Tucano, where two assets were already sold to HRT for a value of US \$1.2 billion. In São Francisco, where the E&P investments have reached approximately US \$ 500 million, the transaction was expected to be a complete sale of assets. As of October 2014, the firm held 23 areas under concession in the Minas Gerais part of the basin and has already begun to discuss discovery evaluation plans (PAD's) with the National Oil Regulator (Agência Nacional do Petróleo – ANP). Internally, there was the possibility of Petra's board of directors opting to reduce part of their share in the four blocks in Pernambuco-Paraíba.

Anadarko

In October, industry sources stated that Anadarko planned to send a research team to Brazil to study the possibility of a farm-out in the country, where they operate blocks C-M-101 and C-M-102 in the Campos basin. As of January 5th, 2015, no further information has been available. The assets were for sale in 2011-2013, but the firm did not receive adequate interest.

At C-M-101, the firm made a discovery thanks to well 1-APL-1-ESS, called Wahoo. In 2013, the evaluation stage drilling confirmed the extent of the prospect, but no additional investigations have been made since then. The PAD of C-M-191 expires in November 2015.

The consortium behind the block is formed by Anadarko (30%) in co-operation with BP (25%), IBV (25%) and Maersk (20%). As for C-M-102, its PAD expires in December of 2014. The area was drilled with three wells, from 2010 to 2011 with Ecopetrol as partner holding a 50% share. Anadarko also has 33% of the share of C-M-61, operated by BP (40%) with Maersk (27%) as partner.

Sonangol

After a four-year presence onshore and offshore in Brazil, Angolan firm Sonangol has stated that they are selling their E&P assets in the country. Sonangol is now close to concluding a deal with [Partex](#). The negotiations had been ongoing since October 2014. No new information is currently available on either Partex's or Sonangol's website as of January 5th, 2015. Other firms have presented proposals, but analysts consider Partex's the best offer.

There are many assets in play: an exploratory block in the Potiguar basin, POT-T-794, operated by the firm; two fields, Sabiá Bico de Osso and Sabiá da Mata, operated in Rio Grande do Norte with 30% of the share; and two more fields, Cambacica and Guanambi, located in Recôncavo and operated by Petrobras with Sonangol owning 25% and 20% of shares respectively. The fields combined produce close to 273 barrels/day of oil and 1.5 million cubic meters of natural gas. The firm will return to ANP the areas of Maritaca, Recôncavo, and Aracuaã in Sergipe-Alagoas. The value of the transaction is expected to be less than the US \$200 million for which Sonangol paid for the fields in 2010, when the fields held 16 exploration projects.

Conclusion

There are many ongoing, finalized and withdrawn sales of blocks in Brazil's E&P sector. Although the faces may change, Brazil's E&P sector still holds many opportunities for U.S. equipment and service providers as well as oil operators due to increased exploration, diverse assets, and Brazil's attractive geology. Additionally, ANP reports that 45 oil discoveries are currently in evaluation process. Seven of them will have their PADs due in 2015, owned by Petrobras, Vipetro, Anadarko, and Parnaíba Gás Natural (PGN). These companies will have to decide if they will declare their oil fields commercial or return the fields to ANP, according to their contracts.

Recently, the Brazilian Energy Policy Council (CNPE) has given the green light for ANP to hold the **13th Oil Bidding Round** in 2015. The types of oil blocks and the bidding round date have yet to be determined. American companies doing business with Brazilian E&P firms should take note of the shifting environment and check relevant sources as information becomes available.

Sources

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For more information about export opportunities in this sector, please contact
US Commercial Service Industry Specialist:

Regina Cunha (regina.cunha@trade.gov)
Senior Commercial Specialist
U.S. Commercial Service