Organização:

Parceiros:

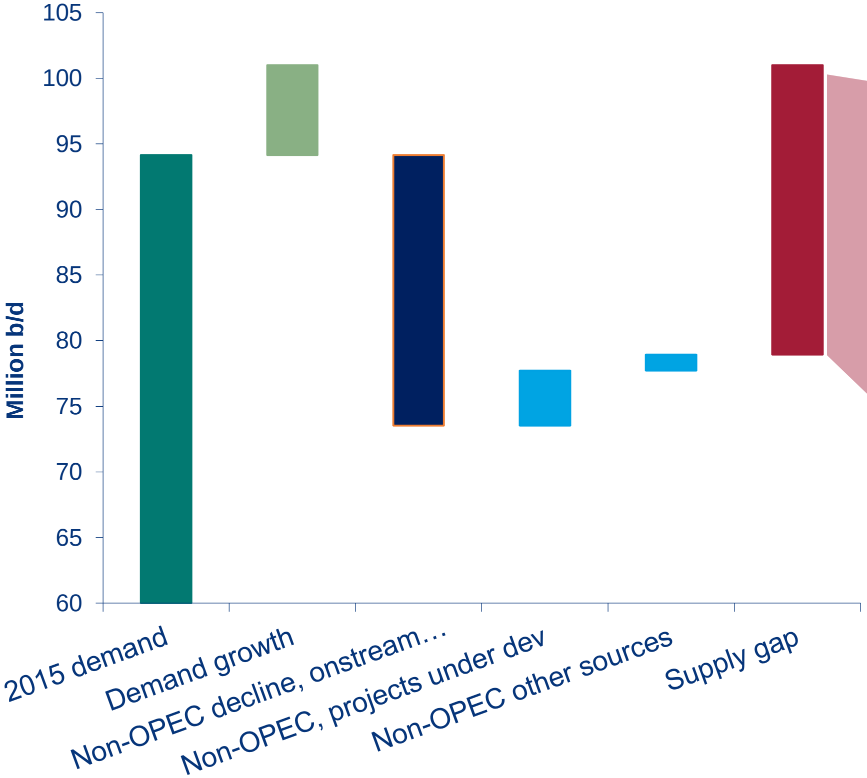
Ciclo de Debates sobre Petróleo e Economia

Pedro Camarota
General Manager
Wood Mackenzie Brasil

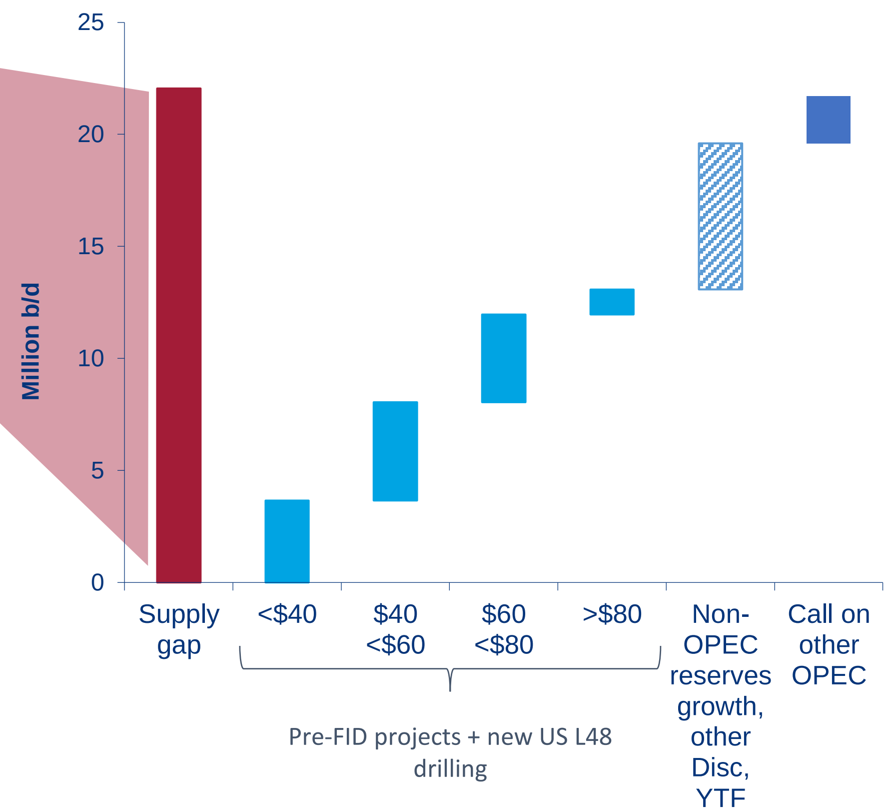
Pre-FID projects are crucial to fill 2025 supply gap

Based on our latest Macro Oils market analysis, over 20 million b/d needs to be developed by 2025 to offset production declines and meet the growth in Wood Mackenzie's base-case demand view. Most of this comes from US L48 future drilling and conventional pre-FID projects

Growing supply gap to 2025



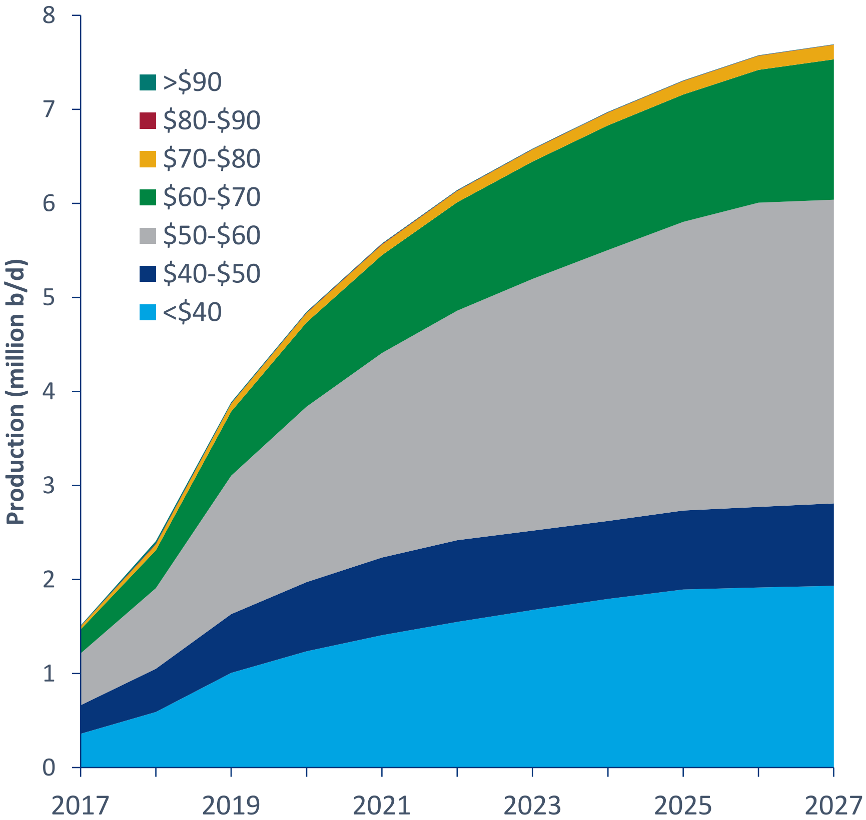
Cost of pre-FID projects and new drilling required



Source: Wood Mackenzie Oil SupplyTool and Macro Oils Long Term Outlook H1 2016

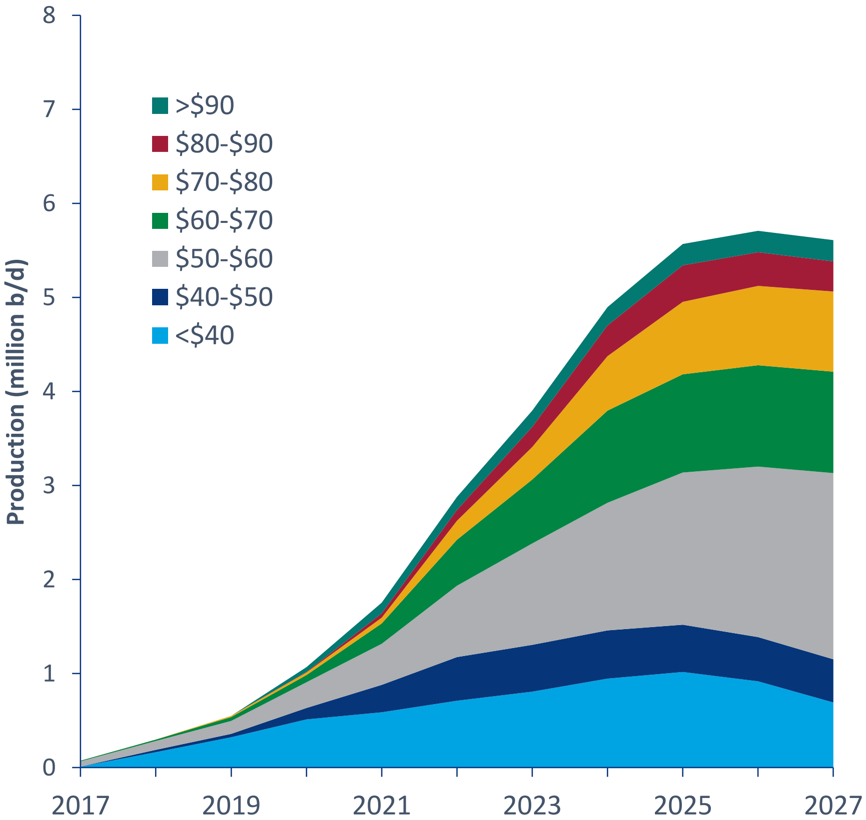
80% of US Lower 48 future drilling is now commercial under $60/bbl but only 55% of conventional projects are

US Lower 48 breakeven bands



Source: Wood Mackenzie

Conventional pre-FID breakeven bands



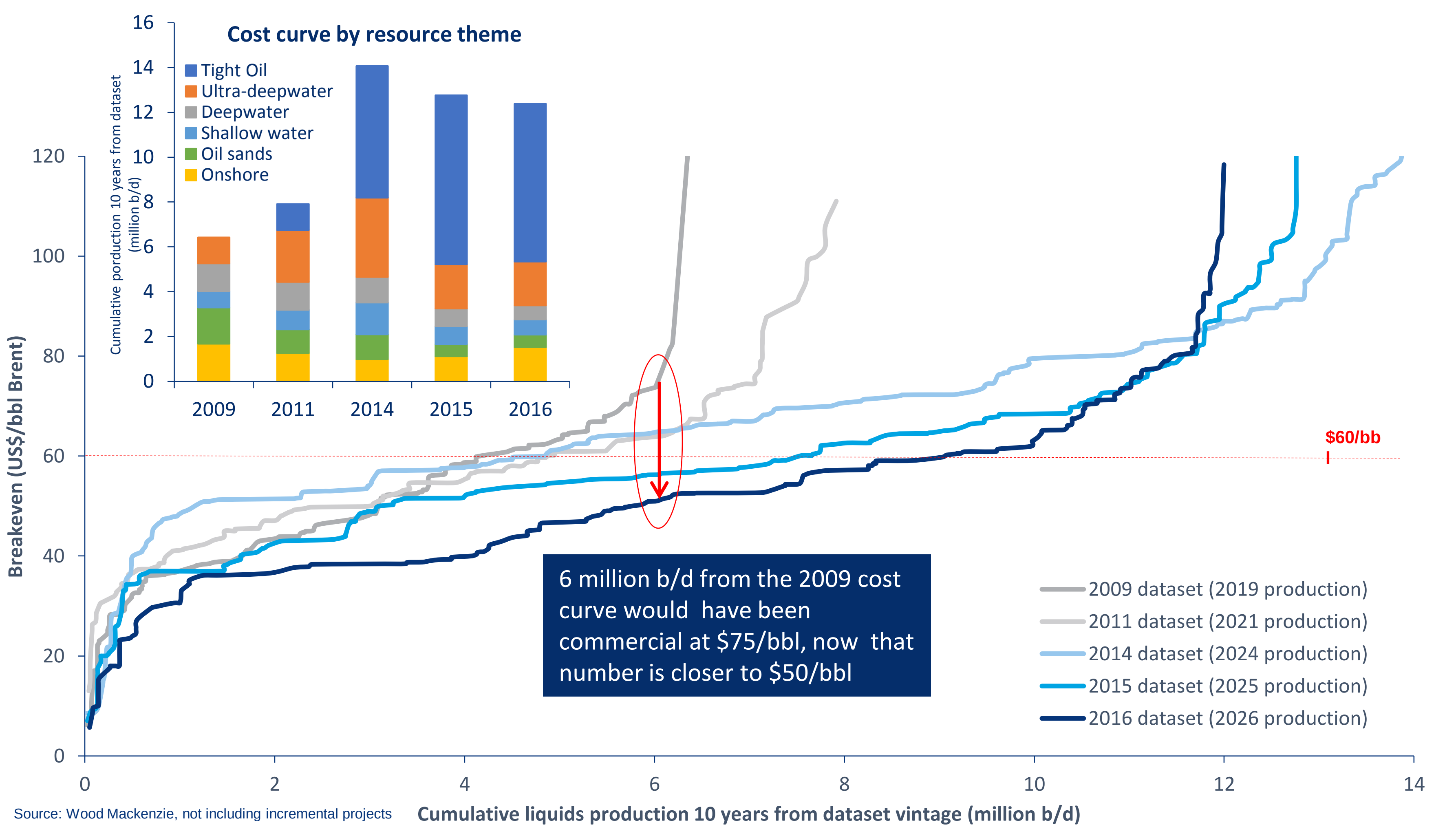
Source: Wood Mackenzie

Source: Wood Mackenzie

Evolution of pre-FID cost curves since 2009

Longer, lower and flatter. Tight oil is the key driver behind this structural change

Pre-FID cost curves since 2009, rebased to 10 years from dataset vintage



instituto de economia

Source: Wood Mackenzie, not including incremental projects

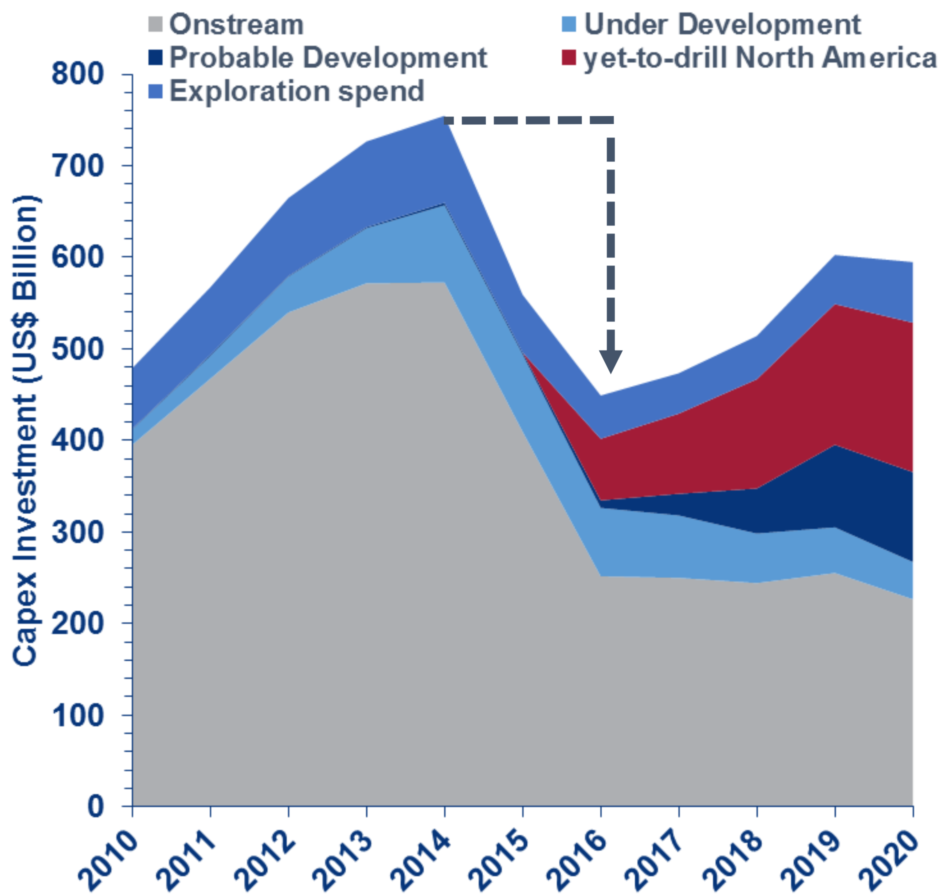
The drop in oil price has had deep impact on upstream investment, falling by 45% from its peak…

Global upstream spend (US$ bn)

2014 spending proves unsustainable

Capital investment down to US$400 bn compared to US$660 bn in 2014

L48: uncons flexibility: recovers 2017 with firming oil price



Conventional FIDs: 6 in 2015, similar in 2016

Exploration spend - halves to cUS$45 bn 2016-18 – consequences?

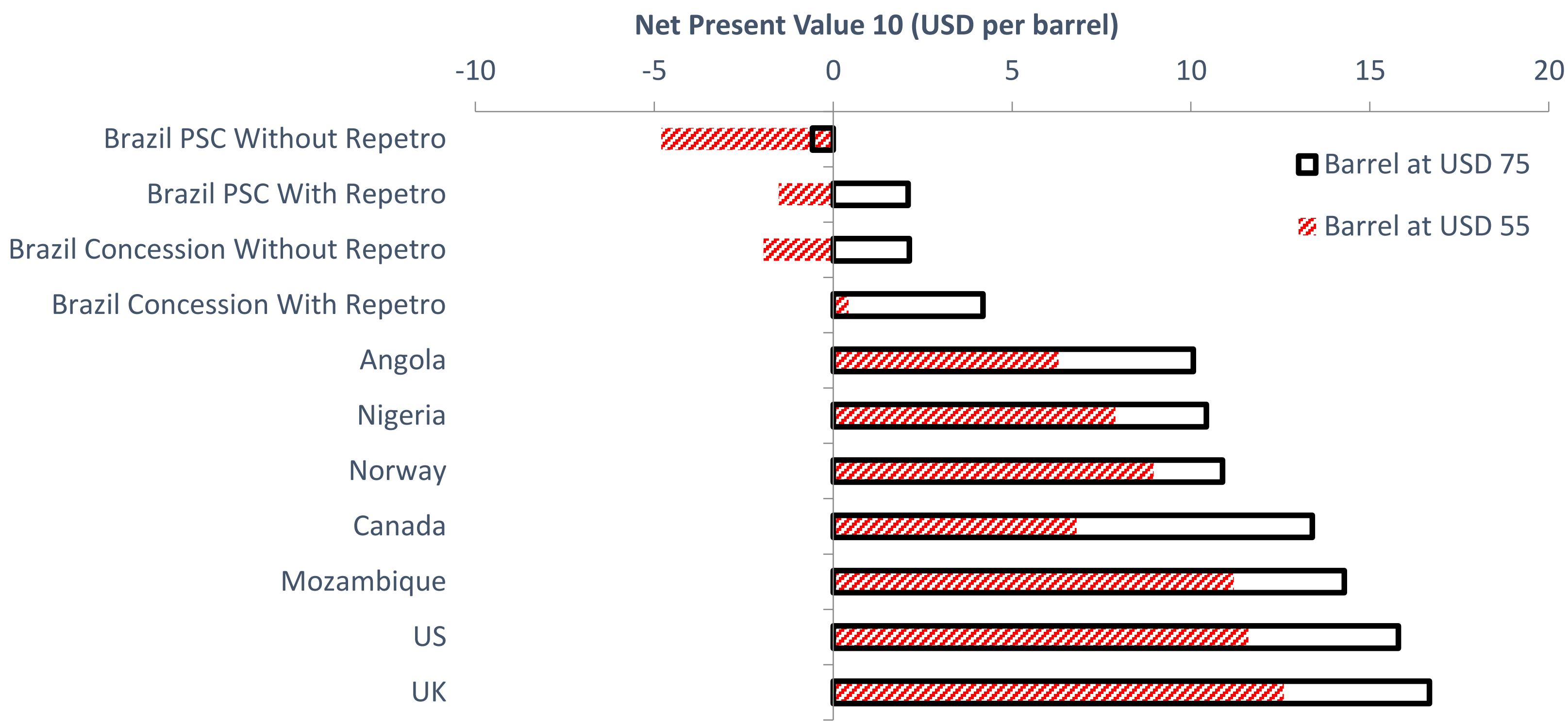
Exploration spend – picks up towards 2020

Source: Wood Mackenzie. Forecast of trend for development costs based on Wood Mackenzie database

From a fiscal terms perspective, REPETRO keeps Brazil marginally competitive

Without REPETRO, Brazil falls behind other deepwater regimes competing for investment

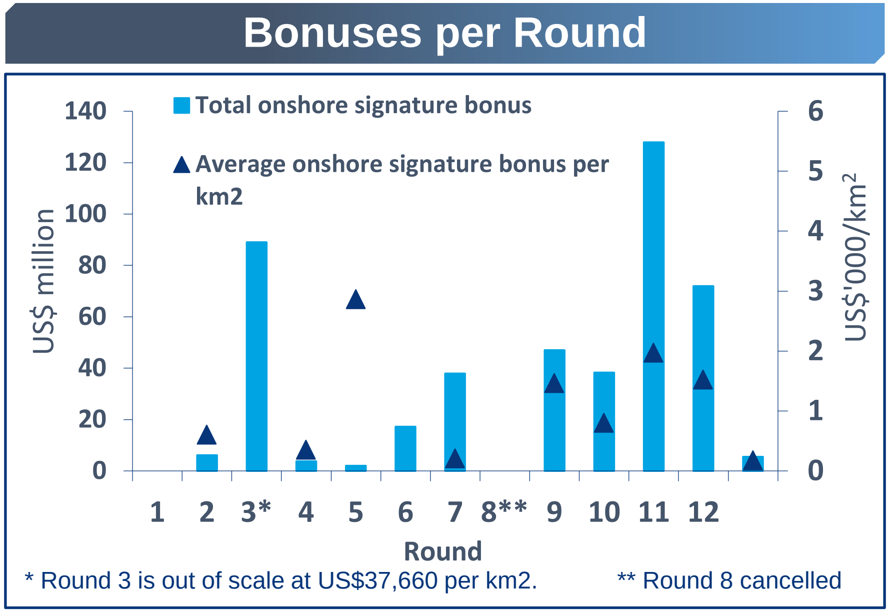
Fiscal Regime Attractiveness

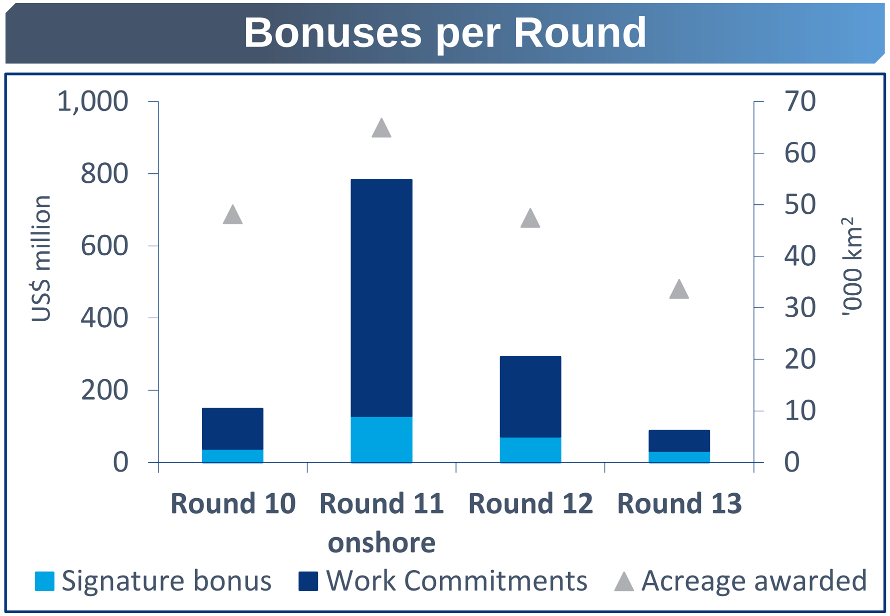


Note: Based on a 660 million barrel deep water oil field under each fiscal regime

Above-ground issues undermine the investment attractiveness of the country's highly prospective acreage

The operational & regulatory environment reduces ability to plan and execute efficiently.





- **Environmental licensing delays ; strained domestic supply chain → delays and cost overruns**
- **No clarity around waivers for local content; expiry of REPETRO → highly uncertain future cost estimates**
- **Round 13 outcome: Result of more of the same terms; not enough to mitigate mounting concerns over issues that impact economic viability of future oil and gas developments.**

ibp GEE Grupo de Economia da Energia UFRJ ie. instituto de economia

Final remarks

The new Government is giving positive signs of its intention to improve the sector attractiveness, but investors will require more than just promises.

Government Actions that would improve attractiveness

- *Improve Dialogue with the industry. Set up an interactive and permanent process to get companies feedback and to focus on the key issues*
- *Perform an objective review of its strategic long term targets and benchmark Brazil across all key metrics (fiscal, environmental permitting, regulation, access to markets).*
- *Understand what other countries are doing to be in line with global industry trends*
- *Needs to define a path to achieving those objectives and analyze the implications.*
- *Fiscal Stability is vital for investors: "Short Term Goals vs Long Term Sustainability"*