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FEATURED Q&A

How Is Brazil's 12th Oil and Gas Bid Round Shaping Up?

Q The Brazilian Petroleum Agency recently announced the onshore oil and gas blocks that will be up for auction at the country's 12th Oil and Gas Bid round in October. The auction, which will include some unconventional sources in the country, will auction off 110 frontier blocks and 130 mature blocks. What are the key differences between this bid round and the 11th bid round held earlier this year? What is the contract structure under which the blocks will be auctioned, and will the bid round attract significant interest from international and domestic players?

A Larry B. Pascal, chair of the Americas Practice Group at Haynes and Boone, LLP in Dallas and Thales de Miranda, partner at MMA in Rio de Janeiro: "The key differences between the 11th bid round and the upcoming 12th bid round are the location and nature of the blocks being offered. In the 11th bid round, the Brazilian Petroleum Agency (ANP) offered a combination of onshore and offshore blocks (many located in the Equatorial Margin). These offshore blocks, in particular, although not located in the ultra-deep water pre-salt area, appealed to E&P companies with good deep-water experience. Perhaps due in part to pent-up market demand after five years without a bid round, the 11th bid round was considered a success, with the government receiving 2.8 billion reais after awarding 142 blocks to 30 companies from 21 countries for both onshore and offshore blocks. In contrast, the 12th bid round is entirely onshore and should have more appeal for companies with experience in non-conventional oil and gas. Both the 11th and 12th bid round will use the concession contract structure, as opposed to the production sharing contract model to be used for the separate Libra pre-salt area bid round, which is also ongoing. In the 12th bidding round, the ANP is offering 240 blocks, divided across seven sedimentary basins,

Continued on page 3

Mexico's Congress Approves Education Overhaul

Mexico's Senate gave final approval Tuesday to an overhaul of the country's education system, following the same action by the lower chamber on Sunday. The reforms have been among President Enrique Peña Nieto's top agenda items. See story on page 2.

File Photo: Mexican Government.

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NEWS BRIEFS

Colombia Peace Talks at a 'Critical Stage': Gov't Negotiator

Colombia's peace talks with the Revolutionary Armed Forces of Colombia, or FARC, rebels are at a "critical stage," government negotiator Sergio Jaramillo said Tuesday, according to MercoPress. Jaramillo said that discussions in the next few months will be a good gauge of whether or not the talks will be successful, as the two sides are negotiating on critical topics. President Juan Manuel Santos recently backed off a November deadline for completion, saying the talks could take a few more months.

Ortega Again Threatens Case Over Costa Rican Province

Nicaraguan President Daniel Ortega on Monday repeated comments made in mid-August that Nicaragua may take a case to the International Court of Justice in order to regain control of the Guanacaste province, which it lost Costa Rica in 1824, the *Tico Times* reported. Ortega said he wants to discuss the issue of the province with Costa Rican President Laura Chinchilla, a proposal she has rejected twice. Costa Rica's foreign vice minister, Gioconda Úbeda, said Tuesday that discussion proposals should be presented through formal channels, not through the media.

Nissan, Daimler to Jointly Build Luxury Cars in Mexico

Nissan Motor Co. and **Daimler** will build Infiniti and Mercedes-Benz luxury cars at a $2 billion plant in Aguascalientes, Mexico, Reuters reported Tuesday, citing two unnamed sources. The factory, which will open later this year, will produce the new Infiniti Q30 hatchback, which will share some components with the Mercedes-Benz GLA, the wire service reported.

Political News

Mexico's Congress Approves Education Reform

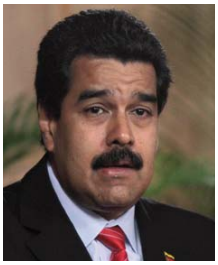
Mexico's Congress gave final approval Tuesday to an overhaul of the country's education system, giving a victory to President Enrique Peña Nieto, despite the protests of teachers who sought to derail the measure, Reuters reported. The Senate approved the bill Tuesday, following the same action by the Chamber of Deputies on Sunday. The measure will require teachers to take tests before they can get jobs in the classroom or be promoted, BBC News reported. Peña Nieto signed the education system overhaul in February, but lawmakers needed to pass separate legislation to implement the reforms. Peña Nieto's government has argued that teachers' unions control of jobs in public education has led to corruption, which has allowed inadequate teachers to be promoted over colleagues who are better qualified. "The inheritance and sale of jobs" has ended, said Education Secretary Emilio Chauyffet, referring to the country's widespread practice of teachers passing their jobs to their children or selling them. Protesting teachers who are part of the CNTE union have flooded Mexico City's streets in recent days and weeks, paralyzing traffic. At one point, they prevented lawmakers from meeting in the Congress building and forced Peña Nieto to change the venue of his state of the nation speech and deliver it on Monday, a day later than originally planned. The strike by teachers in some areas has also meant no classes for hundreds of thousands of children in states including Nayarit and Quintana Roo. The union has threatened to hold more strikes in coming days.

The reform has ended "the inheritance and sale of jobs," said Mexico's education secretary.

Economic News

Blackout Cuts Electricity to 70 Percent of Venezuela

A power outage cut electricity to 70 percent of Venezuela on Tuesday, including parts of Caracas, shutting down traffic lights, disrupting the capital's subway system and sending thousands of workers home, BBC News reported. The blackout started at 12:30 p.m. local time and affected large parts of the Andean nation for three hours before power was gradually restored, said Deputy Electrical Energy Minister Franco Silva. One of the national grid's main transmission lines experienced a fault, leading to the outage, he said. The country's oil industry was not affected by the blackout as separate generators power the country's refineries. In the past, government officials have said that high consumption of energy during peak hours and poor maintenance of the system have led to power outages. However, on Tuesday, President Nicolás Maduro said he suspected his political opponents of "sabotage" in the latest blackout. "Everything seems to indicate that the extreme right has resumed its plan for an electrical strike against the country," said Maduro. In a speech on state television, Maduro also said the outage was "part of a low-level war" against Venezuela, a "folly by twisted and desperate minds." Maduro said he had instructed the military "to protect the entire country" and did not give any evidence to support his claims of sabotage. Opposition leader Henrique Capriles said Maduro's government was using the sabotage allegations to distract the public from the country's problems. Capriles and other opponents of Maduro have said he and his predecessor, the late Hugo Chávez, have spent billions of dollars in public money to win votes, but have neglected upkeep of the country's electrical grid.



Maduro

File Photo: Venezuelan Government.

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Featured Q&A

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with 110 blocks (with a total size of 64,477.76 square kilometers) in new frontier areas in the Basins of Acre, Parecis, São Francisco, Paraná and Parnaíba and an additional 130 blocks in the mature basins of Recôncavo and Sergipe-Alagoas. The size of these 130 blocks is 3,870.66 square kilometers. This bid round is expected to attract significant interest from E&P companies with strong shale gas experience, primarily from Texas and Asia, and, in the domestic arena, probably Petrobras, which has its own proprietary technology for extracting oil from shale rocks. Bids are expected to be opened in November of this year."

A Chirag Sabunani, Latin America upstream analyst at Wood Mackenzie: "Brazil will conclude its varied 2013 licensing activity with the gas-focused onshore round 12, currently scheduled for November. The ANP is looking to build on the strong interest in onshore acreage during round 11, which saw companies licensing 95 percent of all onshore acreage offered. Unlike onshore round 11 acreage, however, round 12 acreage is predominantly frontier and is believed to hold unconventional gas potential. In addition, some mature areas in the Recôncavo and Sergipe-Alagoas basins will be on offer. We expect the highest interest to be for the mature acreage, driven by junior companies, including an emerging group of indigenous Brazilian E&Ps. In the frontier areas we expect participation from companies like Petra Energia and Imetame that already have frontier positions. In addition, the industrial sector may participate in the round, as companies like CEMIG and ORTENG look for stable gas feedstock for their operations. Finally, through ProGas, a program specifically designed to focus on the development of onshore gas, Petrobras will participate in the round. Acreage will be licensed under the existing concession system, and there will be no mandatory state participation. For all unconventional targets, operators will need to work with IBAMA, the federal environmental regulator, in addition to the ANP. IBAMA is not normally involved in onshore operations, but it will play a role in unconventional activity given its environmentally sensitive nature and early stage in Brazil. We expect limited interest from major IOCs at this stage, but we expect them to farm into acreage once there has been some success with the drill-bit."

A Francisco Ebeling Barros, member of the board of Economics and Energy Policy of the Brazilian Institute of Oil, Gas and Biofuels in Rio de Janeiro: "The 12th oil and gas did round, to be held in November, is a landmark in the Brazilian E&P industry's history. There is a key reason for that. While the United States has been mastering unconventional exploration—especially shale gas—this is a completely new horizon in Brazil. Apparently, E&P companies do not really know exactly what to do. It seems that this bid round will be the start of a new learning curve for all actors involved, which includes exploration companies and the ANP regulatory body. Some important questions arise. Is the concession system as we know it suitable for unconventional exploration, especially as concerns the risk-reward equation? Is the government prepared to give up a part of its fiscal ambitions, especially as concerns the collection of royalties? Is it willing to subsidize this new frontier with tax reductions? As in unconventional production, the stages of exploration and development are typically interspersed, so what kind of regulatory changes may occur? And, last but not least, how will the environmental dangers of fracking be assessed in Brazil? It is important to state that some of the areas to be leased sit on the 'Guarani Aquifer', one of the world's largest aquifer systems and an important and very strategic source of fresh water."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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