

Brazil's Petrobras, CNPC in talks on strategic partnership

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Brazilian state-led oil producer and refiner Petrobras and China National Petroleum Corp. (CNPC) have signed a memorandum of understanding to start talks on a wide-ranging strategic partnership, Petrobras said Tuesday.

"The companies commit to evaluating together opportunities in Brazil and abroad in key areas of mutual interest, benefiting from our abilities and experiences in all segments of the oil and gas supply chain, including potential financing deals," Petrobras said in a statement.

The agreement is the latest in a string of tie-ups Petrobras engaged in over the past year. The partnerships are an important part of Petrobras' divestment plan, which aims to shed \$21 billion worth of assets in 2017-2018 and reduce the company's role in non-core sectors such as biofuels, fertilizers, electricity generation and refining.

The collapse in oil prices and a corruption investigation that cut Petrobras off from global financial markets forced the company to dramatically reduce its investment budget and seek partners for important projects, including development of the prolific subsalt offshore region. Petrobras has already agreed to similar partnerships with France's Total and Norway's Statoil that include the sale of stakes in subsalt fields.

Petrobras and CNPC already are partners in the Libra Field, which was the first subsalt field sold under Brazil's production-sharing regime in October 2013. Petrobras owns a 40% operating stake in the field, while CNPC and CNOOC own 10% minority shares. Total and Shell also each own 20% minority stakes.

The consortium plans to conduct a long-term well test at Libra this year, with the Pioneiro de Libra floating production, storage and offloading vessel, or FPSO, expected to pump first oil in the test later this month.

Petrobras provided few details about the potential partnership, but the company has been hunting for partners to share some of the financial risk in developing the ultra-deepwater fields in the subsalt. Chinese oil companies, meanwhile, continue to hunt for barrels to meet China's insatiable appetite for crude and could benefit from Petrobras' expertise in deep-water exploration.

China has also been an important source of funding for Petrobras and other Brazilian companies in recent years. China Development Bank extended a \$10 billion loan that also included an oil-supply deal, which has resulted in heavy exports of Brazilian crude to China in recent months.

Despite the current outlook that international oil prices will remain lower for longer, Brazil's offshore subsalt region remains one of the most-attractive areas in the world. The size of the subsalt resource is immense at more than 100 billion barrels in the Santos Basin alone. The region is also lightly explored, with less than 20% of the so-called "subsalt polygon" under contract.

Brazil, in fact, is relatively unexplored given the country's long history of oil production. According to the National Petroleum Agency, or ANP, less than 4% of Brazil's sedimentary basins are currently under contract.

The strategic partnership could be a precursor to forming consortia ahead of Brazil's three upcoming licensing sales. The ANP will hold the 14th bid round, which will feature 287 onshore and offshore blocks, on September 27. The country's second and third bid rounds for subsalt acreage under production-sharing agreements will be held October 27.

Petrobras has already exercised its preferential rights to take at least a 30% operating stake in three of the subsalt prospects that will go on sale in October: the unitized portion of the Sapinhoa Field, one of the country's top oil and gas producers; the Alto de Cabo Frio Central prospect; and the Peroba prospect.

CNPC, which is China's biggest oil and gas producer and a leading refiner, could also be a candidate to complete two refineries currently under construction in Brazil: Comperj in Rio de Janeiro state and Refinaria do Nordeste, or RNEST, in Pernambuco state. The two refineries, which were two of the projects at the heart of the corruption scandal, are more than 80% complete.

Petrobras Chief Executive Pedro Parente said in June that the company would not complete the second 115,000 b/d processing train scheduled for RNEST or Comperj without a partner. The company, however, has not yet decided on the model it wants to use for refinery divestments or partnerships, Parente said.