

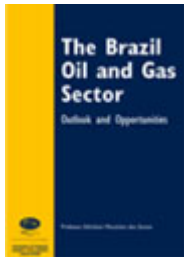


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The Brazil Oil and Gas Sector



Introduction

This report on the Brazil Oil and Gas Sector begins with a summary of Brazil's important social, political and economic characteristics and their impact on the energy sector, which must be considered by private investors. The report then identifies potential barriers and uncertainties affecting the energy industry as well as the Brazilian government's position on deregulation.

This report:

- Describes the main features of the Brazilian energy environment as well as reviewing existing opportunities and the remaining barriers to private investment
- Considers the balance of risks and opportunities in the country, looking at economic and political developments, as well as summarizing the potential for the demand and supply of different energy sources and their effect on the future for energy investors
- Recognizes Brazil's central role in regional activities
- Analyzes the relationship between Brazil and other countries in the Southern Cone of South America, as well as Brazil's increasing role in the global energy industry and its impact on the environment
- Summarizes the questions frequently asked of the Brazilian National Petroleum Agency and tries to identify the government's position on energy deregulation and other aspects of the country's energy industry.

The report concludes with the present situation of the Brazilian energy industry and makes some projections for its future development.

Published December 2001, 185 Pages

Available for \$1195 USD Acrobat/PDF version, \$895 USD in print

The Brazil Oil and Gas Sector

Executive Summary

This report begins with a summary of Brazil's important social, political and economic characteristics and their impact on the energy sector, all of which must be considered by private investors. The report identifies potential barriers to entry and uncertainties affecting the energy industry as well as reviewing the Brazilian government's position on energy deregulation and other issues. It describes the present situation of the Brazilian energy industry and makes some projections for its future development.

Since 1997, when Brazil started the process of opening up its oil and gas industry, then a national monopoly, the country has been developing a reputation as an attractive place for foreign investment. This process followed the stabilization of Brazilian inflation, achieved through a broad macroeconomic programmed, the Real Plan of 1994, and the consolidation of Brazil's new democracy. The new political and economic landscape tempted foreign investors back to the country and opened it up for globalization.

Brazil offers a well-developed infrastructure, considerable potential for increasing energy demand, a reasonable command of leading technologies and a continuing deregulation process, which together create an interesting climate for energy investment and activities.

The deregulation process is not evenly spread over the whole energy sector. While some areas have opened up faster and have already attracted private capital - both foreign and national - there are still segments where state owned companies maintain a strong presence, competition is absent and it is difficult for Brazil to bring in private investors because of the lack of an appropriate regulatory framework.

As a result of the lack of investment, energy supply has been tightening up and major energy disruptions are threatened. In 2001 the electricity sector was the first to suffer such disarray, with important economic, political and social consequences. The old, centralized, self-sufficient and nationalistic model for electricity supply was exhausted, while new opportunities were springing up for enthusiastic investors eager to take risks in a large, emerging country.

New energy supply alternatives will materialize as Brazil inexorably dives into ultra-deepwaters for offshore oil and natural gas production. Energy integration with neighboring countries such as Argentina, Bolivia or Venezuela also creates new options for gas and electricity supply. The speeding up of gas/electricity convergence is likely to be the major outcome from the electricity shortage in 2001. Brazil may anticipate the introduction of new technologies for distributed energy generation with growing efficiency and flexibility. The country will also review the role of renewable energies as biomass, solar and wind become more competitive choices. A diversified mix of opportunities is available for investors, whether they are small or large, traditional or

creative.

Energy demand is expected to keep growing at a high rate as the country's economy recovers, increasing the impact of energy deficiencies. Consequently, risks as well as opportunities may increase and Brazil will probably become even more attractive to investors with a broad, strategic perception of the energy business.

This report describes the main features of the Brazilian energy environment as well as reviewing existing opportunities and the remaining barriers to private investment. It considers the balance of risks and opportunities in the country, looking at economic and political developments, as well as summarizing the potential for the demand and supply of different energy sources and their effect on the future for energy investors.

Although this report focuses on Brazil, it recognizes that Brazil is likely to play a central role in regional energy activities and thus analyses the relationship between Brazil and other countries in the Southern Cone of South America, as well as Brazil's increasing role in the global energy industry and its impact on the environment.

Finally, this report summarizes the questions frequently asked of the Brazilian National Petroleum Agency and tries to identify the government's position on energy deregulation and other aspects of the country's energy industry.

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Who Should Buy This Report?

This report is essential reading for those who are interested in an insight into Brazil's energy sector. Professor Edmilson Moutinho dos Santos provides fresh views and in depth contribution to the understanding of the country in terms of:

- Population trends
- Political perspectives and risk appraisal
- Oil reserves data and energy consumption figures
- Past and present macroeconomic stabilization measures - the external dependence of the Brazilian economy and the need for further reforms
- The Brazilian oil and gas sector in the context of the global industry
- The potential for growth and key investment prospects but warns of the numerous pitfalls that are ahead
- The impact of current economic, political and legal issues on the future development of the sector and the effect on the investment climate
- Current and projected upstream and downstream activity
- Projected market trends.

The report, published in an easy to use format, is essential reading for:

- Oil and gas exploration and production companies
- Government and regulatory organizations
- Risk managers
- Project finance specialists
- Equipment manufacturers and suppliers
- Investment banks
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