

*The Brazilian Pre-Salt and the Role of
Pré-Sal Petróleo S.A – PPSA:
Unitization Agreements and Production
Sharing Contracts*



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Petróleo

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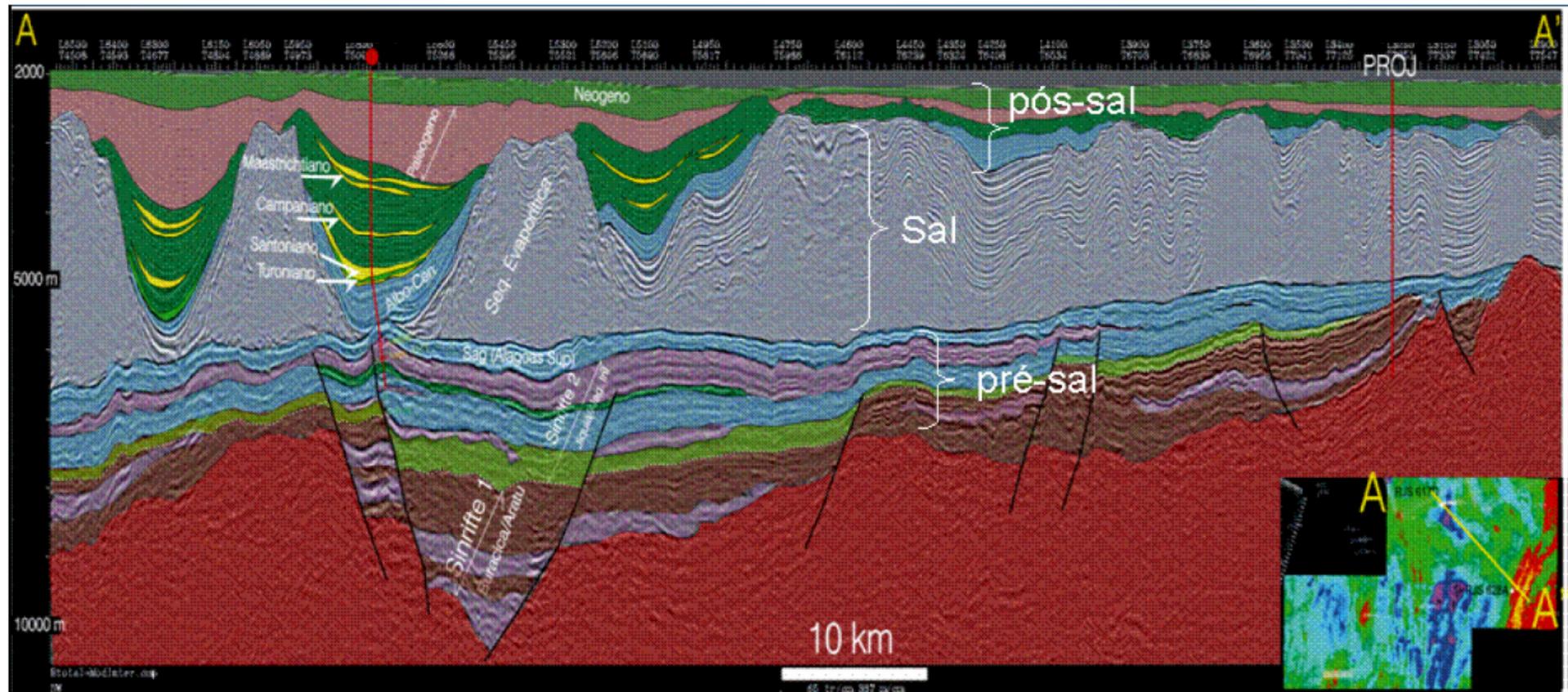
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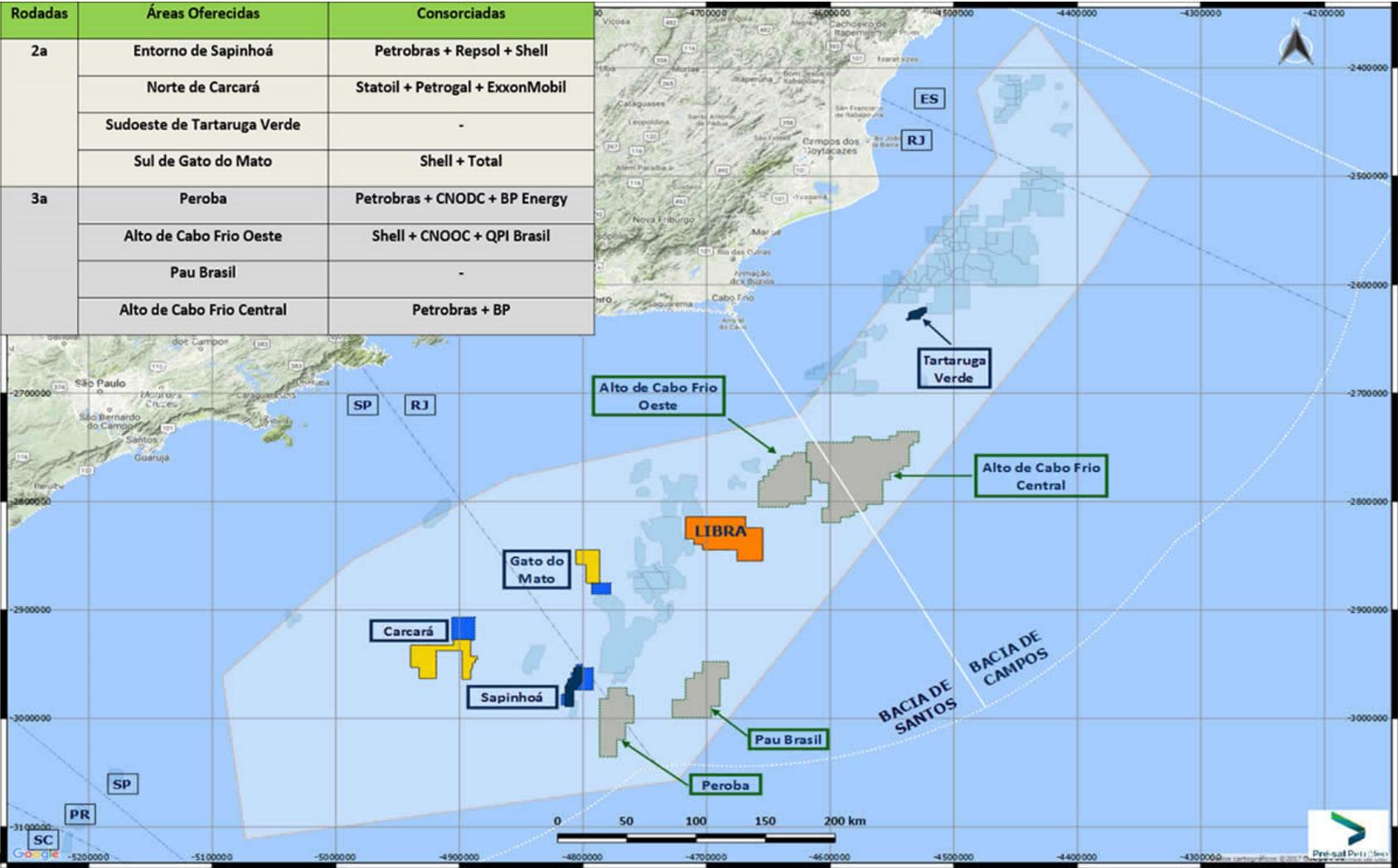


The Geological and Legal Pre-Salt: Strengths and Fragilities

Pre-Salt in Profile



Pre-Salt in Map



But at the end of the day, what the Pre-Salt is?

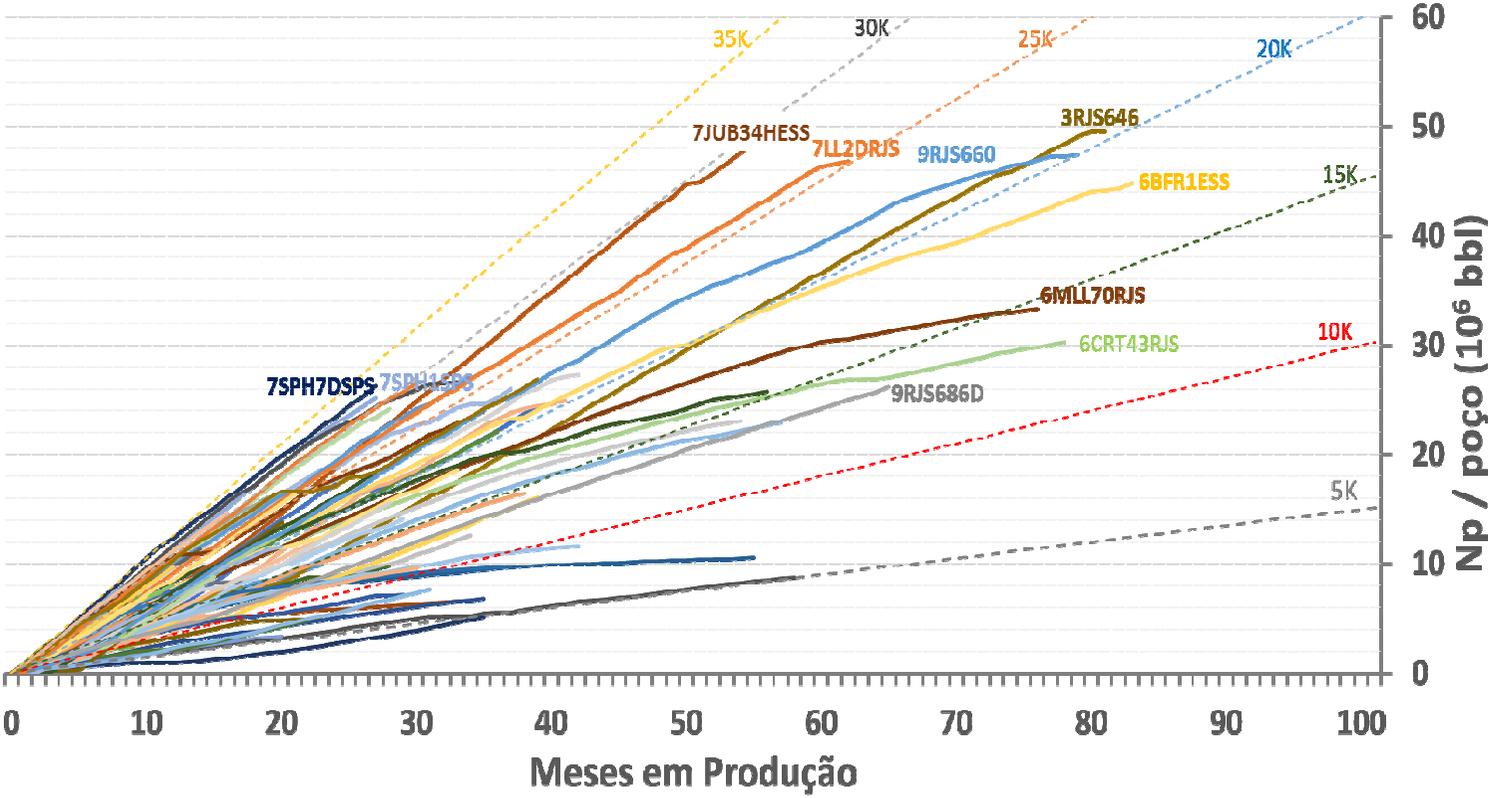
A geological province located beneath a layer of evaporite deposits formed about 120 million years ago as a result of the tectonic movements that culminated in continental separation between South America and Africa.

Geological Pre-Salt

Vertical prism with indeterminate depth which horizontal projection is a polygon with coordinates defined by Law n° 12.351/2010 with an area of about 150 thousand Km².

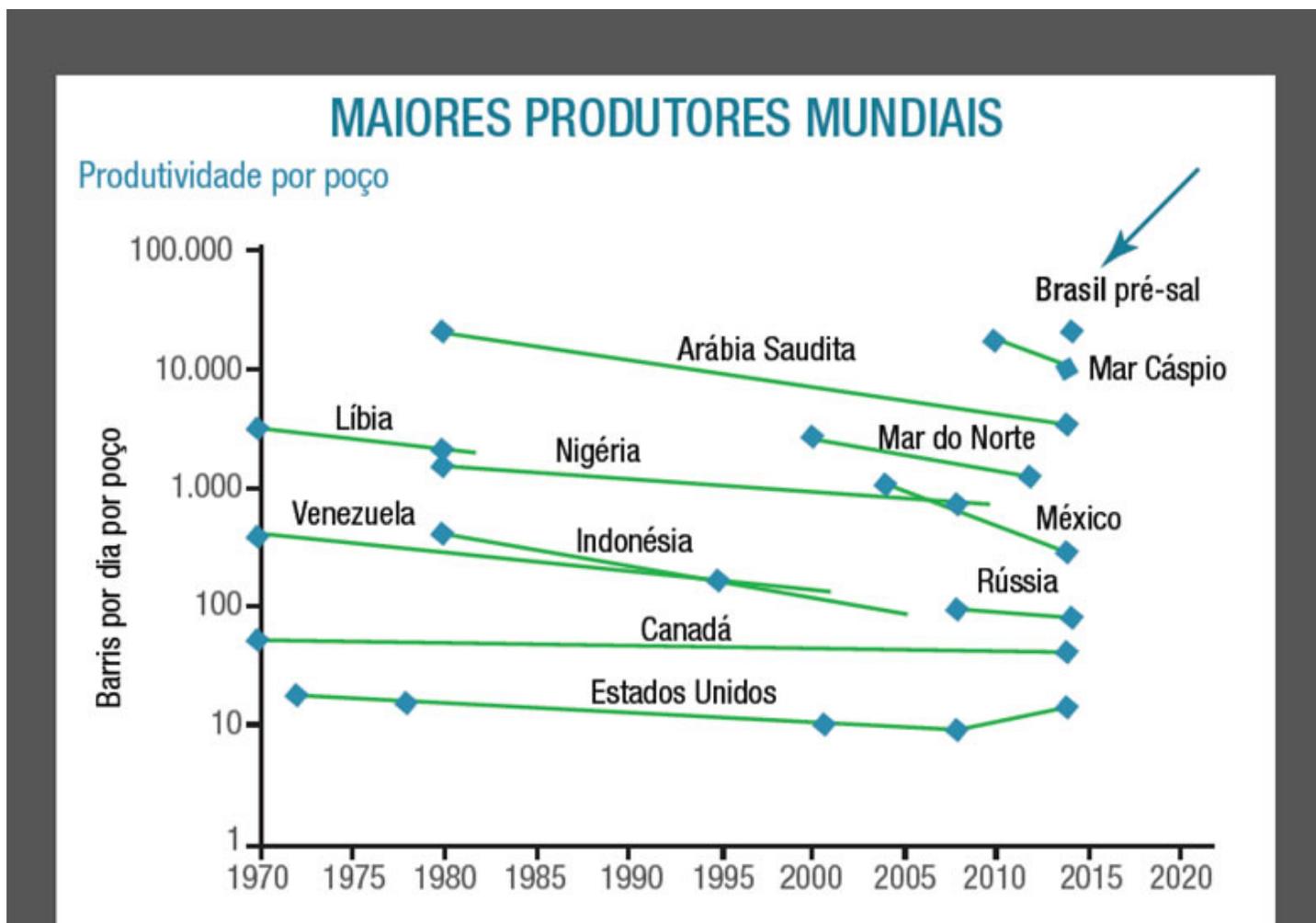
Legal Pre-Salt

The Strength of the Geological Pre-Salt



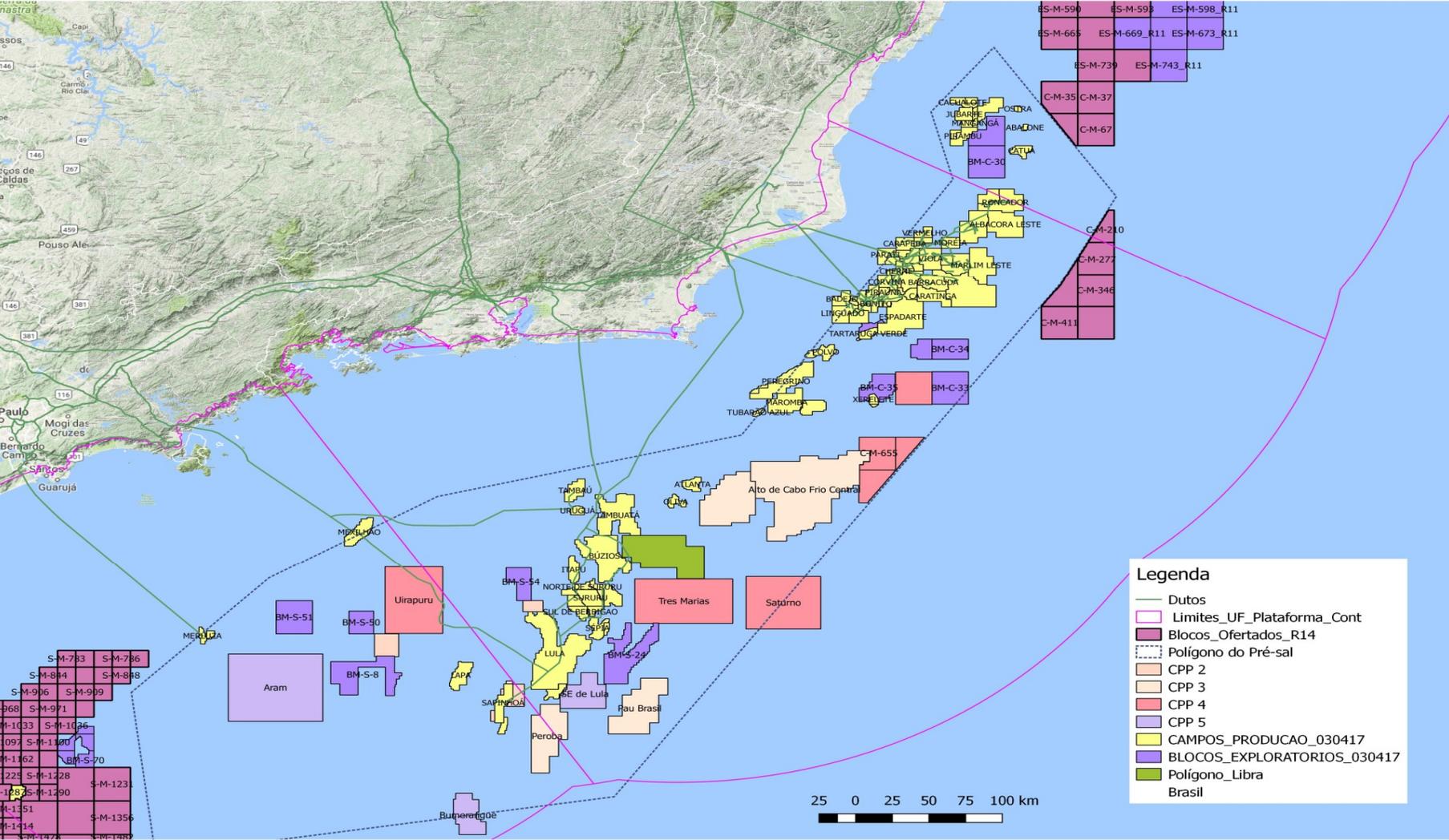
Fonte: PPSA

The Strength of the Geological Pre-Salt



Fonte: PPSA

The Fragility of the Legal Pre-Salt





The Role of PPSA in the Brazilian Pre-Salt Upstream

Legal Assignments

- PPSA has exclusive and indispensable Assignments:
 - Management of Production Sharing Contracts.
 - Management of commercialization of Federal Union Oil and Gas.
 - Federal Union representative in Unitization Agreements involving Open Acreage in the Pre-Sal and Strategic Areas.



Unitization Aspects

Unitization with Open Acreage

- Operator has the option between to carry the Federal Union or suspending the E&P Contract (article 14-A of RANP 25/2013).
- ANP may impose the interruption of the Production Phase (article 41 of Law 12.351/2010).
- Open Acreage that contains a portion of a shared Reservoir **should be promptly contracted** (article 3 of RCNPE 8/2016)

Thinking About article 36 *caput* of Law 13.351/2010

Art. 36. A União, representada pela empresa pública referida no § 1º do art. 8º e com base nas avaliações realizadas pela ANP, celebrará com os interessados, **nos casos em que as jazidas da área do pré-sal e das áreas estratégicas se estendam por áreas não concedidas ou não partilhadas**, acordo de individualização da produção, cujos termos e condições obrigarão o **futuro concessionário ou contratado sob regime de partilha de produção**.

Unitization After Contracting of the Open Acreage

- PPSA's prerogatives as Federal Union representative can not be transferred to the new Contractors.
- PPSA is not a Part in the PSA. So, it is not a Part in the new Unitization Agreement too, since the Working Interest of the Federal Union is zero.
- PPSA acts as consenting intervening.



Management of PSC Aspects

Management of PSA Aspects

- As the Manager of PSCs, PPSA must perform all acts necessary for the management of the PSCs, including those listed in article 4, I of Law 12.304/2010.
- Management of PSCs has not been a major issue between PPSA and the partners.
- The main controversies have been solved amicably and arise from the procurement procedures and its consequences in the recognition of expenses as Cost Oil.

Procurement Procedures (From 2º BID ahead)

- Ordinary Procedures:
 - Procedure A:
 - Direct contracting of suppliers of goods and services up to US\$ 15.000.
 - Waiver of competition, authorization and information to the OpCom.
 - Procedure B:
 - Competitive contracting of suppliers of goods and services up to US \$ 2, 4 or 7 million (EP, PP or DS).
 - Waiver of authorization from the OpCom (except for Affiliates of any Contractor).
 - Procedure C:
 - Contracting of goods and services of value above US \$ 2, 4 or 7 million (EP, PF or DS).
 - It needs to be twice approved by the OpCom. Preliminary approval (strategy ballot) and final approval (hiring ballot).

Procurement Procedures (From 2º BID ahead)

- Extraordinary Procedures: may only be adopted in situations where: (i) it is demonstrated the impossibility to adopt ordinary procedures; (ii) the price competitiveness is demonstrated; and (iii) prior approval by the Operating Committee.
 - Adherence to contracts for the supply of goods and services previously entered into by the Contractors.
 - Acquisition of assets from contractors' inventory.
- Special Procedures: may only be adopted for the contracting of services typically executable by the Operator (specified in the Internal Rules of the Operational Committee).
 - Ex.: Analysis of testimonial samples.
- Specific Procedure: Contracting of goods and services through a foreign company established by the Contractors in order use fiscal benefits (REPETRO).
 - FPSO chartering.

Cost Oil Recovery

- Right to Recover
 - Requirements:
 - Previous approval by the OpCom.
 - PPSA recognition.
 - Not to be included in the exhaustive list of non recognizable expenses as Cost Oil.
 - Some expenses incurred prior to the signing of the PSA can be recognized as Cost Oil provided that, simultaneously, they:
 - Are related to the acquisition of data and information or the obtaining of governmental licenses.
 - Are recoverable as Cost Oil according to the criteria of Appendix VII.
 - Have been ratified by the OpCom prior to their effective recovery as Cost Oil.



Audit of Cost and Profit Oil

- Results in the definitive recognition or reversal of unduly recognized expenses.
- Maximum periodicity: 5 years (if this term prevails, recognition becomes definitive).
- Minimum periodicity: 6 months.

Thank you



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