

Client Alert

Latham & Watkins Corporate Department

Brazil Announces 11th Bid Round for Petroleum Concession Opportunities

Brazil will hold its 11th Bid Round in May 2013 for the auction of petroleum exploration and development rights in 289 onshore and offshore exploration blocks. The blocks are located in the following sedimentary basins of Brazil:

- Barreirinhas;
- Ceará;
- Espírito Santo;
- Foz do Amazonas;
- Pará-Maranhão;
- Parnaíba;
- Pernambuco-Paraíba;
- Potiguar;
- Recôncavo;
- Sergipe-Alagoas; and,
- Tucano Sul.

The blocks up for auction will include acreage located in the Equatorial Margin of Brazil, an area that has seen a great deal of recent attention due to the belief that its petroleum geology is similar to that of offshore West Africa, where large oil discoveries have been made in recent years.

The 11th Bid Round will use the concession contract model and the 2008 local content rules. Bids for acreage included in the bid round are to include submissions for a signature bonus, minimum exploration program and local content commitments.

The auction is scheduled to occur in Rio de Janeiro on May 14th and 15th. The petroleum agency of Brazil (*Agência Nacional do Petróleo, Gás Natural e Biocombustíveis*, the ANP), which is responsible for the bidding process, has released the following timeline for certain deadlines associated with participating in the bid round:

- March 26, 2013: (i) Delivery of "Expression of Interest" package; (ii) delivery of qualification documents; and (iii) payment of participation fee
- April 26, 2013: Submission of bonds
- May 14-15, 2013: Submission of bids
- August 2013: Signing of concession contracts

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The ANP will hold seminars covering certain “technical-environmental” and “legal-tax” topics in Rio de Janeiro on March 18th and March 19th, respectively, for companies interested in participating in the bid round. A qualification workshop will also be held in Rio de Janeiro on February 22nd. For more information, the preliminary tender protocol for the bid round can be found at http://www.brasil-rounds.gov.br/index_e.asp.

The bid round has been greatly anticipated by the petroleum industry, as it will be the first round held in Brazil in five years. Prior to the announcement, there was a growing concern that companies with operations in Brazil were running out of areas to explore in the country. Those concerns have been alleviated, in part, with the announcement of the 11th Bid Round.

The announcement of the 11th Bid Round had been delayed due to certain disagreements regarding the distribution of oil royalties within the country. Legislation was passed by Brazil's Congress in 2012 in what appeared to be a resolution of such disagreements. However, Brazil's President, Dilma Rousseff, vetoed certain portions of the legislation regarding royalty distributions from existing wells, effectively limiting the application of the legislation to new petroleum contracts only. While the president's vetoes have been challenged, Brazil's government elected nonetheless to proceed with the bid round, as it is believed that a necessary framework exists to proceed with the auction.

It will be an eventful year for the petroleum sector in South America, as it was also announced that bid rounds in Brazil will be held for subsalt exploration acreage and unconventional acreage in November 2013 and December 2013, respectively. The acreage made available in the subsalt bid round will be governed by a new production sharing contract regime, under which Petr leo Brasileiro S.A. (or Petrobras) will be the operator and have a minimum participating interest of 30 percent. Bid rounds in other parts of South America that are expected to be of interest to the petroleum industry include bid rounds to be held in Suriname and Ecuador later this year.

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