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Brazil's oil auction raises US\$2.2 billion

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Ahead of the biggest oil auction in Brazilian history next month, several law firms have confirmed their roles assisting international majors in the country's 16th oil bidding round, which raised 8.9 billion reais (US\$2.2 billion) in signature bonuses.

Demarest Advogados advised Qatari oil company QPI. Mattos Filho, Veiga Filho, Marrey Jr e Quiroga Advogados represented Texan and British companies ExxonMobil and BP. Tauil & Chequer Advogados in association with Mayer Brown assisted California's Chevron, Chinese company CNOOC, Malaysia's Petronas and Germany's Wintershall.

Several other companies made winning bids in the auction, which took place on 10 October; many of them relied on in-house counsel. Latin Lawyer was not able to identify further external counsel.

The blocks auctioned exceeded the expected value for bonus signatures by 322% on average. Although only 12 of the 36 blocks offered by Brazilian oil agency ANP got winning bids the total value of bids was surprisingly high. Four blocks had offers exceeding 1 billion reais (US\$240 million).

The biggest bid came from a consortium formed by Total, QPI and Petronas. They acquired block CM-541 for 4 billion reais (US\$970 million). This is thought to be the highest ever bid for a single oil block in Brazil.

Petronas holds a 70% stake in another consortium, which it shares with BP. They paid 2 billion reais (US\$480 million) for block CM-477. Petronas also paid 1.1 billion reais (US\$270 million) for 100% of the rights over block CM-661. All three blocks are located in the Campos basin in Rio de Janeiro, where another seven blocks were auctioned. Two further blocks were auctioned in the Santos basin, on the São Paulo coast.

The success of the latest auction sends positive signals about the outcome of another, bigger auction set to take place in November. “This was the ‘ugly duckling’ of oil auctions; we knew that some blocks would be left out, but at the end we saw a lot of competition,” says Mattos Filho’s Giovani Loss. He notes that companies were willing to pay billions of reais in signature bonuses to acquire areas that will require investment to find undiscovered oil. This demonstrates that those companies are willing to take the risk that the investment will not pay off. “Technical teams of different top profile companies understood that those values were worthy because several companies bid with similar values,” he says.

The auction sets a record for the total value of signature bonuses received for a non-pre-salt area. But it is set to be dwarfed by the upcoming auction of oil blocks in the region known as the transfer-of-rights area, which includes Brazil’s most valuable pre-salt reserves. The government expects to collect 106.5 billion reais (US\$25.8 billion) in signature bonuses by offering these blocks, which represent the jewel in the crown of Brazil’s oil assets. The transfer-or-rights auction is scheduled to take place on 9 November.

This area is highly sought after because Petrobras has already proved the existence of oil reserves, which eliminates exploratory risks for the bidding companies. In addition to 5 billion oil barrels already acquired by Petrobras, ANP estimates the area may contain between 6 and 15 billion barrels.

Tauil & Chequer’s Alexandre Chequer says the next one will be a “historical auction.” Chequer believes the auction will generate “gigantic” investments. “What comes next is incredibly big; the companies will bring the resources necessary to explore the areas they acquire, and this will feed the production chain and completely transform the industry, especially in Rio de Janeiro,” he says.

Counsel to BP

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Partners Giovani Loss and Nilton Mattos, and associates Maria Clara Coelho, Gabriel Acciarito and Fernando Ludke

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