

Brazilian Energy Policy – Back to Domestic Sources

Klaus Hermanns

Executive Summary

Since April this year, Brazil may regard itself as self-sufficient in crude oil. The country's enormous endeavours to achieve energy autarky that had their beginnings at the time of the military dictatorship were crowned by the commissioning of the Petrobras oil platform P-50 in the Bay of Santos.

The government-owned oil company Petrobras has by now developed into an internationally operating concern that is active in 22 countries and plans foreign investments amounting to 7.1 billion US dollars in the period from 2006 to 2010. While oil extracted abroad currently makes up 13 percent of the overall Brazilian oil and gas production, its share will increase to 16 percent by 2010. These figures show clearly that Petrobras continues to focus its activities on Brazil itself, although the company, recently distinguished by the Spanish consulting firm Management & Excellence (M&E) for its social engagement, its transparency, and its future viability, plans to rise to market leadership in the industry throughout Latin America.

The nationalisation of foreign oil and gas companies in Bolivia, which recently took place under the new Bolivian president, Evo Morales, does have an impact on the Brazilian energy question. During his election campaign, Mr Morales was still supported by the Brazilian, Lula. The way in which this move was carried out, i.e. the ostentatious deployment of Bolivian troops in front of the facilities of foreign companies, gave rise to concerns and fears in Brazil about what would happen to the Brazilian investments of about one billion US dollars which Petrobras, the largest company operating in Bolivia, no less, had spent in the neighbouring country.

Currently, Brazil is about 50 percent dependent on natural-gas supplies from Bolivia, which delivers c. 26 million cubic metres of natural gas a day to its neighbour. This dependence will probably not change very soon, and Bolivia's oil minister, Andrés Soliz Rada, even sneered that Lula's plan to solve the natural-gas problem by obtaining almost 90 percent self-sufficiency by 2008 was unrealistic, and that Brazil had better meet its obligation to buy from Bolivia up to 30 million cubic metres of natural gas a day until 2019.

Brazil faces a re-orientation of its energy policy. Stepping up prospection and exploration activities in Amazonia serves the same purpose. Bolivia on its part cannot ceaselessly keep the price spiral spinning, although it intends to demand eight US dollars for one million BTU, i.e. about 28m³ of natural gas, in the near future. Brazil, Bolivia's most important export country with a share of 33 percent, currently pays the agreed price of between 3.23 and 4.21 US dollars.

Shortly before the nationalisation decree came from La Paz, Mr Morales, his Venezuelan counterpart, Hugo Chávez, and the Cuban head of state, Fidel Castro, met in Havana. At this meeting, the cooperation agreement Alternativa Bolivariana para os Povos da Nossa América (ALBA) was signed which, among other things, provides for Venezuelan and Cuban support for Bolivia in expanding its infrastructure, its energy sector, and its social projects. And shortly after the nationalisation decree, a strikingly high number of Venezuelan technicians was registered in Bolivia, the Bolivian oil company YPFB probably needing them for the technical implementation of the nationalisation project.

To reduce his country's dependence on Bolivian natural gas, Nestor Cerveró, a member of the Petrobras board, announced in July that his company would increase its engagement in Venezuela. In concrete terms, this means building a natural-gas liquefaction plant for the Brazilian market. It remains to be seen, however, whether the decision to cooperate with Venezuela was a wise one. On the one hand, the Chávez/Morales alliance is always good for a surprise. On the other, the condition of Venezuela's own energy policy furnishes food for thought: Since Mr Chávez first took office, there have been no fewer than seven changes in the management of the government-owned Venezuelan oil company, PDVSA. The dismissal of large numbers of unpopular employees has weakened the organisational and personnel management of the company, and corruption resulting from mismanagement has increased.

Brazil has an energy mix, of which 44.5 percent consists of renewable energies such as water power and sugar-cane products. Important non-renewable energies are oil and its derivatives. The National Energy Plan 2030 provides for a further upgrade of hydroelectric power. In this context, special consideration is given to the still-unused potentials of Amazonia – a perspective which, among other things, raises fears about possible grave consequences for the ecosystem of the Amazonian rain forests.

The production of bioethanol has undergone a renaissance in Brazil. Having exported 50,000m³ of alcohol in 2005 alone, this South American country is the second largest producer of ethanol worldwide, after the USA. To put into effect the project planned by Petrobras together with Japan to increase the alcohol content in conventional petrol on the Japanese market, Petrobras intends to enhance domestic sugar-cane cultivation significantly. What is more, it is planned to add biodiesel to fossil diesel fuel in Brazil itself. The new magic word is agroenergy. According to the plans of the Brazilian federal government, it is to play a key role in Brazil's future energy policy.