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BRAZIL

Big Drama

If the “Car Wash” corruption scandal that originated at Brazil’s state-owned oil producer Petrobras were a Latin American soap opera, it’s safe to say it wouldn’t be cancelled anytime soon. The latest installment even features a presidential runner-up hinting at murdering a top Brazilian cop. However, it will still be tough to top the ratings spike seen two weeks ago, when news broke that President Michel Temer had been secretly recorded condoning the payout of “hush money” to now-jailed ex-House Speaker Eduardo Cunha. Despite such revelations, Temer is adamantly refusing to step down, maintaining that it would jeopardize economic reforms that have put Brazil back on the path to prosperity.

Just over a year ago, Energy Compass posited that leadership turnover was no antidote for Brazil’s graft problem, after a different recording of then-Vice President Temer also made headlines in the lead-up to the removal of his predecessor Dilma Rousseff (EC Apr.22’16). On that tape, Temer referred to himself as her “constitutional substitute,” a role he would indeed play a few months later. However, the latest, now-public recording of Temer contains far more damning dialogue that will not comfort any investors who may have believed Brazil had turned over a new leaf (EC Apr.21’17).

On May 18 local press reported that on Mar. 7, Joesley Batista — co-owner, with his brother, of Brazil’s largest meat-packing company JBS — met with Temer to discuss an issue he had with CADE, the country’s antitrust agency. Realizing authorities were tailing him, Batista smuggled a tiny rubber-coated recording device past Temer’s metal detectors, clearly seeking plea-bargain ammunition. Later that month, “Operation Weak Flesh” would charge JBS with bribing health inspectors to turn a blind eye to tainted meat exports. This week, JBS agreed to pay a 10.3 billion real (\$3.17 billion) fine in the case.

On tape, Batista, noting he had yet to be charged with anything, informs Temer that he had several judges as well as a member of Brazil’s Attorney General’s Office in his pocket, having purchased their allegiance. “You’re securing both of them?” Temer asks. “I’m securing both of them,” Batista assures him. “Great, great,” Temer replies. While Temer has acknowledged that a meeting with Batista occurred, he has questioned the recording’s veracity, saying he refused to “believe two judges and a member of the Attorney General’s Office could be co-opted” in such a manner.

In a separate Mar. 24 recording, Batista suggests to Aécio Neves — the runner-up in Brazil’s 2014 election, and now accused of obstructing the “Car Wash” investigation — that Leandro Daiello, the head of Brazil’s Federal Police, be dealt with. “We’ve got to get rid of that guy,” says Neves, parroting Batista’s words from just a moment earlier. “Pa, pa, pa! And send that guy sailing,” says Neves later in the recording, simulating gunshots. Daiello earlier drew the ire of Rousseff and her Worker’s Party, too, for publicly saying he would have no problem investigating her or her predecessor, ex-President Luiz Inacio Lula da Silva. Meanwhile, Neves, who was booted from his Senate post after the recording came to light, publicly dismissed the “gunshot” moment as “horsing around.”

Auctions Forge Ahead

What do these seemingly endless shenanigans mean for Brazil’s energy sector? Maybe nothing, according to members of the industry. At the Institute of the Americas’ annual La Jolla Energy Conference held last week in California, officials from Brazil’s oil regulator, the ANP, which administers bid rounds, were remarkably sanguine in their assessment of the situation. “We’re in a technical phase now, and soon we’ll start to qualify companies,” said ANP official Andre Regra when questioned if politics would throw a wrench in plans for numerous auctions, including two in the massive offshore presalt formation scheduled for Oct. 27. “It would be extremely unlikely for the process to stop somehow,” he added.

Alongside Regra, Jay Thorseth, vice president of Americas exploration for BP, meanwhile touched on regulatory and taxation issues like the still-pending renewal of the Repetro tax relief program for oil companies. He also voiced a desire to see more agile permitting, describing it as “super critical.” Notably, however, he seemed to brush off political risk worries. “From an industry point of view, I think [Brazil] will weather the storm,” said Thorseth, characterizing the country as “resilient” and noting the auctions represented an “opportunity.” “Politics go up and down,” he said, “but Brazil will forge ahead.”

Amid the chaos, last week Petrobras also exercised its legal “right of preference” to operate three areas up for grabs in this year’s presalt auctions, signaling it too believes things will

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move forward. And one man determined not to shift course is young Energy Minister Fernando Coelho Filho, whose fate could yet be linked to Temer's. Coelho Filho said in a statement said his "departure would not help Brazil overcome its political crisis," noting that "transformational" changes in the oil and gas sector "should not and cannot be stopped." ■

Anthony Venezia, New York

Compass Points

- **SIGNIFICANCE:** Ex-ANP Director Nelson Narciso Filho echoed his old agency's assertion that auction plans were already too far along to be derailed. "Obtaining National Energy Policy Commission approval, which is the political part of the process, has already been overcome," he told *Energy Compass* on the sidelines at La Jolla.
 - **CONTEXT:** The cycle of corrupt leaders looks tough to stop. If Temer must go before his term expires in 2018, Rodrigo Maia, the leader of Brazil's lower congressional house, would step into power for a month — during which time he would organize an indirect election, with congress voting in new leadership. Maia was one of the main opponents of an anticorruption bill that Brazil's congressmen overwhelmingly voted to shelve last year (EC Dec. 16'16).
 - **NEXT:** Brazil's Supreme Electoral Court on Jun. 6 will issue a decision as to whether 2014's Rousseff-Temer slate violated campaign finance law by accepting dirty money. A decision against them would annul their win and force Temer out of office.
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