

BRAZILIAN WAVE

JANUARY 2013

ISSUE 17

THE BRAZILIAN FOCUSED MARKET REPORT



INSIDE THIS ISSUE:

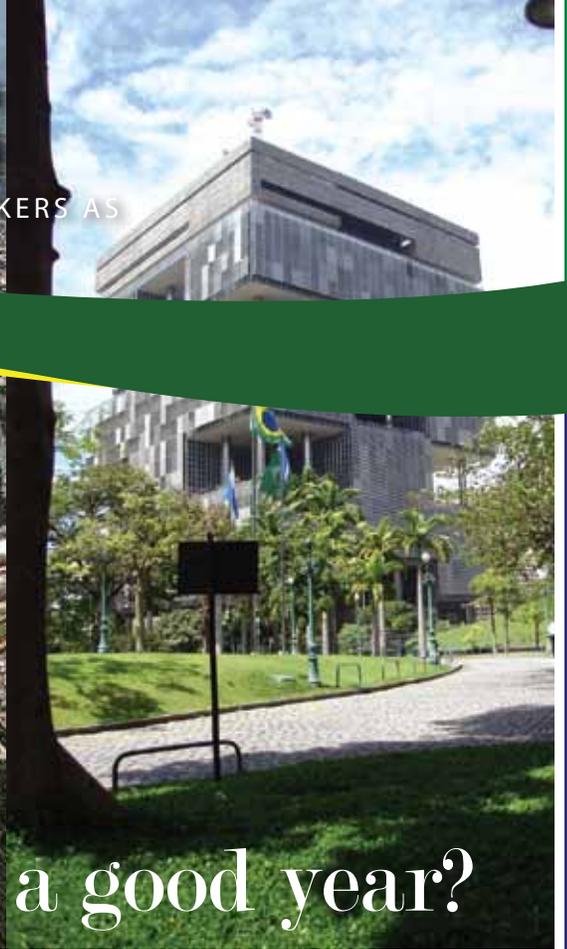
▶ HEADLINE NEWS	2
▶ VESSEL NEWS	4
▶ PETROBRAS TENDERS	5
▶ OPERATOR UPDATE	6
▶ DRILLING & PRODUCTION	8
▶ LOOK AHEAD	8
▶ SPOTLIGHT	10
▶ INSIDE STORY	11
▶ É ISSO AÍ!	12

BROUGHT TO YOU BY
WESTSHORE SHIPBROKERS AS


WESTSHORE
DO BRASIL

02 HEADLINE NEWS

BROUGHT TO YOU BY WESTSHORE SHIPBROKERS AS



Will 2013 be a good year?

The discoveries of oil in the pre-salt layer offshore Brazilian coast endorsed a great moment for the country and raised the production perspective of Petrobras to five million boed by 2020. The 2012 scenario was however less encouraging, with the Oil Major reporting a first quarter loss, something that has not happened in 13 years. At the same time Petrobras fell below ECOPETROL, from Colombia, in market value terms.

One of Petrobras main obstacles seems to be the political influence. In as much as Petrobras attempts to operate independent from the government, since 2006 the rates of products such as gasoline have been directly controlled to help fight inflation. Notwithstanding, to address the increasing internal demand, Petrobras needs to import several products, while still investing in upgrading its refineries, offshore assets and infrastructure. It is a combination that reduces the ability to generate revenues, profit, and places a lot of pressure on costs. Complementarily, the fulfillment of the legal requirements to contract and purchase national services and parts, as means to stimulate local labor and industries, caused problems in the budgets and chronograms of Petrobras main projects.

Externally to Petrobras, the business environment experienced some apprehension with the pre salt legislation aimed at making the State a major operator of the pre-salt layer. This disappointed other companies and left Petrobras overloaded with a future commitment to deliver something that can hardly be achieved by a company on its own, no matter its scale.

This year Petrobras will work with the government to develop suppliers in Local Productive Arrangements (APLs),

concentrating on industries around Petrobras' projects, such as refineries, shipbuilding and offshore poles. In partnership with the Ministry of Development (Mdic) and the Brazilian Agency of Industrial Development (ABDI), the company defined five pilot-projects of APLs for the oil and gas industry: Rio Grande (RS), Itaboraí (RJ), Ipatinga (MG), Maragogipe (BA) and Ipojuca (PE).

The current model is a supply chain where the final focus is the product and geographic dispersion of the industry. The conception of the APLs located in territories with low degree of industrialization or recent industrialization presents, according to diagnostics several competitive advantages, such as optimized geographic localization; promotion of the regional economic development; increase of the productivity; size and scales of the demand; technological innovation. The new models have been proven effective over decades in countries as Singapore, Malaysia, Taiwan and South Korea.

There has been an aim to increase cash generation in the aftermath of the Business Plan and Management (PNG 2012-2016). In order to raise productivity and strengthen the management model, Petrobras defined and reported the goals of the Optimization Program Operating Costs (Procop) with the intention to save BRL 32 billion.

The items of expense not covered by the program (BRL 20 billion) are related to the activities of P&D, Engineering, Exploration, Communication, Social Responsibility, Financial Area and other management processes, as well as expenses related to internal transactions to Petrobras System (eliminations between group companies).

Opportunities have been detailed and translated into 515

03 HEADLINE NEWS

BROUGHT TO YOU BY WESTSHORE SHIPBROKERS AS



initiatives of costs optimization, with operational and annual goals consolidated in detailed plans of work for each initiative. This set of initiatives allowed the establishment of the reduction target of BRL 8 billion, or 19% of forecasted expenses (BRL 43 billion).

The goal of cost optimization will be the direct responsibility of each director and will be monitored monthly by the Board quarterly collegiate and taken to the Council of Directors, through specific operational indicators.

Down to everyday-life for offshore vessel owners, as a direct result of the initiatives put forth the market expects a twofold slowdown in the contracting process: at first, the demand for vessels coming from the end users inside Petrobras will be challenged before it actually hits the road for

competitive tenders. Next, the processes that eventually get through to the market will be impacted by a much longer award and approval process, with extensions being required. 2012 has revealed quite a lot of that tendency.

It is however expected that this process is part of an adjustment promoted by Petrobras to achieve important targets. After all, the market and shareholders can't complain if the Oil Major is seeking alternatives to optimize its fleet utilization and award process. In the long run this is what everyone expects Petrobras will be able to achieve. In the meantime, we shall start seeing such readjustments being finally implemented and contracting pace resumed in 2013. A wider horizon is expected also for the IOCs as soon as ANP auctions are continued this year.



A WORD WITH WESTSHORE

"We wish all our friends and partners a Happy New Year, marked by more activity, new block bidding rounds, and growth!"

Paula Quirino
Shipbroker



04 VESSEL NEWS

THIS MONTHS FIXTURES, REQUIREMENTS AND MARKET SCREENINGS



THIS MONTH'S SPOT FIXTURES

FIXTURE DATE	VESSEL	TYPE	CLIENT	OWNER	COMM. DATE	PERIOD	DAY RATE
8-Jan-2013	SEA PANTHER	AHTS	NOBLE DO BRASIL	DEEP SEA	8-Jan-2013	20 DAYS	RNR
10-Jan-2013	CBO CAMPOS	PSV	ODEBRECHT	CBO	12-Jan-2013	20 DAYS	42 000,00
10-Jan-2013	FAR STAR	PSV	TECHNIP	FARSTAD	25-Jan-2013	60 DAYS	RNR
11-Jan-2013	CAMPOS COMMANDER	PSV	OCEAN RIG	CHOUEST	11-Jan-2013	03 DAYS	RNR
14-Jan-2013	MAERSK HELPER	AHTS	SHELL	MAERSK	13-Jan-2013	30 DAYS	RNR
14-Jan-2013	MAERSK HANDLER	AHTS	SHELL	MAERSK	15-Jan-2013	30 DAYS	RNR
14-Jan-2013	MAERSK PROVIDER	AHTS	SHELL	MAERSK	15-Jan-2013	30 DAYS	RNR
14-Jan-2013	MAERSK PACER	PSV	SHELL	MAERSK	30-Jan-2013	30 DAYS	RNR
14-Jan-2013	MAERSK TENDER	PSV	SHELL	MAERSK	30-Jan-2013	30 DAYS	RNR

THIS MONTH'S TERM FIXTURES

FIXTURE DATE	VESSEL	TYPE	CLIENT	OWNER	COMM. DATE	PERIOD	DAY RATE
18-Dec-2012	UOS NAVIGATOR	AHTS	PERENCO BR	UOS	30-Nov-2012	150 DAYS	43 000,00
20-Dec-2012	BONGO	PSV	PERENCO BR	CHOUEST	30-Nov-2012	150 DAYS	36 000,00
21-Dec-2012	ASSO VENTITRE	AHTS	PETROBRAS	AUGUSTA OFFSHORE	23-Dec-2012	4 YEARS	34 000,00
21-Dec-2012	WILLIAM C O MALLEY	AHTS	PETROBRAS	TIDEWATER	23-Dec-2012	4 YEARS	44 800,00
11-Jan-2013	FAR SAGARIS	AHTS	PERENCO BR	FARSTAD	15-Feb-2013	12 MONTHS	RNR
15-Jan-2013	SEA TIGER	AHTS	REPSOL SINOPEC	DEEP SEA	FEB/MAR/2013	120 DAYS	RNR
15-Jan-2013	SEA BEAR	AHTS	REPSOL SINOPEC	DEEP SEA	FEB/MAR/2013	120 DAYS	RNR

TIDEWATER – The following vessels left Brazil in late December Pelafigue Tide, Kehoe Tide and De Vries Tide, they were offered under tenders to Petrobras but not getting confirmed, and will now be employed in foreign waters (Africa).

MAERSK - Maersk Helper, Maersk Handler, Maersk Provider, Maersk Pacer and Maersk Tender have all been snapped up by Shell Brasil for multiple Anchor Handling, Tow and Supply duties. Average fixture periods on the vessels are 45 days with Maersk Pacer and Maersk Tender being mobilized from outside Brazil.

CHOUEST - PSV Campos Commander was awarded a 6 month contract with Shell Brasil starting this month.

DEEP SEA SUPPLY - AHTSs Sea Tiger and Sea Bear were fixed to Repsol Brasil for 04 months to assist S/S EnSCO 5002. Expected commencement is February/March 2013.

TIDEWATER - Brazilian flagged Danko Tide is being upgraded after award of contract to Shell Brasil as OSRV. The vessel will be delivered in February for 18 months firm plus options.

FARSTAD - PSV Far Star has been awarded by Technip UK a 60 day contract plus options, to operate in BC-10 block with Shell, supporting the construction vessel Deep Blue and MPSV Deep Pioneer. Far Star is expected to start operating in the end of January.

CHOUEST - Poland built 5000 dwt PSV Bongo has been awarded a contract with Perenco for 6 months firm starting March, the vessel is being mobilized to Brazil to add to the largest single owner fleet operating in Brazil.

VEGA OFFSHORE - Vega Corona and Vega Crusader are on hire for Petrobras, with Vega Junis now mobilizing to Brazil, also for Petrobras.

FARSTAD - AHTS Far Sagaris has been awarded by Perenco a 12 month contract plus options to support the Ocean Star drilling campaign in Brazil. Commencement of the contract is expected to take place during 1st quarter 2013.

CBO - CBO Campos has concluded her term docking and is back to the market as PSV DP1, awaiting contract award confirmation from Petrobras.

05 PETROBRAS TENDERS

UPDATE ON THIS MONTHS OUTSTANDING TENDERS

2013 has started and no movement has been noticed on the Petrobras chartering side. New tenders are expected, but only when outstanding processes are closed i.e. have Petrobras charter confirmation by BOD. Meantime, Petrobras has been asking owners to revalidate its proposals until the subject is in the queue for approval.

PSV 1500, PSV 3000, PSV 4500, TS 15000, AHTS 12000, AHTS 12000 OR, and 15000 TO are some tenders which have results still pending BOD. New expectation is to have chartering process resumed by end February.

THIS MONTH'S CLASSIFICATION RESULTS

In December, Petrobras issued a tender to Brazilian owners in order to likely hire two tugboats to provide support to the platform P-23, which will be in Guanabara Bay going through some maintenance work as from March this year, for 95 days firm plus up to 95 daily options. The tugboats will assist the platform from its entry into Guanabara Bay and shall remain in support by performing maneuvers, maintaining the position of the platform, supporting in case of emergencies, as well as when it leaves the place of anchorage. The only requirements were at least 40 tons of bollard pull and to be built as from 1990 and rebuilt as from 2005 (the case of the first vessel qualified). The negotiations and hiring process is expected to be concluded until mid-February. The vessels below were offered and all of them were classified. Please note that the daily rates (BRL) already include fuel per Petrobras' request.

Tenderer	Vessel Name	Year Built	Bollard Pull	Daily Rate in BRL
Sulnorte	SN Palmares	1991	40,3	R\$ 14 950,00
Tranship	TS Luxento	2012	45,0	R\$ 16 730,00
Tranship	TS Poderoso	2007	41,0	R\$ 16 730,00
Smit	Smit Tupi	2007	45,0	R\$ 19 673,80
Locar	LOCAR VII	2008	50,0	R\$ 25 200,00



06 OPERATOR UPDATE

RECENT DEVELOPMENTS FROM BRAZIL'S OIL & GAS COMPANIES

BM-ES-22A
New Concessor



STATOIL INCREASES ITS PRESENCE IN THE BRAZILIAN MARKET

The Norwegian company has announced it has acquired a 25% participating interest from Vale in block called BM-ES-22A in the Espirito Santo Basin. Statoil paid out an amount of USD 40 million to the Brazilian company to expand its exploration strategies portfolio in deepwater areas and also expanding its position in a priority region. Petrobras is the operator of the other 75% in this block.

ROUNDS: THE GONG WILL RING

ANP has announced the 11th bidding round of exploration blocks to May this year in the North and Northeast, the area known as the Equatorial Margin. The 172 blocks offered, on land and sea, are divided into 17 sectors, nine sedimentary basins: Barreirinhas, Ceará, Parnaíba, Espírito Santo, Foz do Amazonas, Pará-Maranhão, Potiguar, Reconcavo and Sergipe-Alagoas. The region is considered highly promising due to discoveries reported recently.



KAROON AND ITS ONGOING FIRST DRILLING CAMPAIGN IN SANTOS BASIN

The Australian company mobilized the semi-submersible drilling rig Blackford Dolphin to the well on December 11th where it began to set anchors and commence pre-spud checks. Karoon recently informed that has already started the drilling operation in the field which is expected to produce 400 million barrels. The oil company also reported that will invest over USD 300 million in Brazilian O&G industry.

WHAT DOES 2013 HOLD FOR EBX GROUP?



Even though Eike saw his companies lose BRL 31 billion on the stock exchange in 2012, he has proven to be optimistic for this year. OGX intends to revise its strategies and plans to accomplish a new certification report of their reserves. The focus is to release more realistic information to the market, less based on projections and forecasts. The company will increase investments by about USD 100 million in 2013 and will also participate in the 11th Round of ANP in May, with interest in developing new areas of exploration and production of oil in Equatorial Margin.

PETROBRAS FORESEES REVENUE OF USD 3.3 BILLION WITH THE RECOVERY OF FIELDS

Since 2010, Petrobras has been experiencing the loss of efficiency of its post-salt fields in the Campos Basin, the largest producer in the country. Only in November last year the company reported an increase in production of 1.5%, totaling 1,968.307 boed. The total production of oil and gas, considering the fields in Brazil and abroad, totaled 2,575.249 boed. Now the company will invest USD 5.1 billion for recovery fields in Campos Basin, expecting to get a return of up to USD 3.3 billion in revenues generated by the increase in production. The awaited return is in two to three years, but the first positive results should appear already in mid-2013. Only with the efficiency gain, Petrobras plans to increase oil extraction by 150 thousand boed, about 10% of what is taken today from Campos Basin.

NOBLE / SHELL

Noble Max Smith, the anchored Semi-Sub of Noble Corp. has arrived to the waters of Brazilian jurisdiction and is heading towards Rio de Janeiro for Shell Brasil. The Semi will be anchored at water depths of approximately 700 meters in Campos Basin and under this contract shall remain on location until about October this year. There are potential prospects for the rig after this well with Shell Brasil. Noble Max Smith arrival follows the departure of Noble Clyde Boudreaux. Shell retains a second platform from Noble operating in Brasil, the DP Drillship Bully 2.

**Shipyard /P2**

The group P2 (Pátria Bank and Promon Engineering) plans to build OSVs starting in 2015, to support Brazilian offshore market. The investments have started with the construction of a shipyard in Itajaí (Santa Catarina coast) where they will spend BRL 670 million through its subsidiary Oceana. Petrobras will be the main final customer, according to their executives, but there is still no contract signed. They are optimistic with their investment plan since the company's expectation is that the number of OSVs in the country will rise from 430 to approximately 690 from 2013 to 2020.

**FPSO OSX-1/OGX**

The company announced the beginning of production of its third well in Tubarão Azul field, called TBAZ-1HP, with FPSO OSX-1 which is producing at an average of 10,100 boed. The well was under cleaning and adjusting process and has recently initiated oil production. The TBAZ-1HP has a horizontal section of 1,200 meters and is located approximately 3 kilometers away from the first two production wells.

Drilling Rigs/Sete Brasil

After winning the bid for 28 drilling rigs, the company plans on delivering the first platform in one year to Petrobras. The unit is being built at Brasfels shipyard and was initially scheduled for 2016. All the work must obey local content rules and the first rig should have 55% of the components made in Brazil, which will increase to 65% until the last rig to be delivered.

**GSF Arctic 1/Transocean**

GSF Arctic 1 ended its operation with Vanco in the first week of January, after drilling three wells. The rig is currently close the Pai and Mãe Islands in Rio, going through its demobilization process. Vanco is expected to redeliver the rig to Transocean in mid-January. GSF Arctic 1 will be towed to the Gulf of Mexico as soon as the vessels Fairmount Expedition and Fairmount Sherpa arrive in Rio with the rig Noble Max Smith.

Papa Terra FPSO/BW Offshore

The Papa Terra FPSO, which is the result of the P-63 conversion project, is currently being towed from Asia to Brazil by the AHTs Uranus and Janus, after leaving COSCO Dalian yard in China, and its ETA is the end of January. Final integration of the remaining six modules will take place in the Rio Grande yard of QUIP, BW Offshore's Brazilian partner. It will operate in the Petrobras' Papa Terra field located in the Campos basin (110 km offshore Brazil), with its planned startup in July 2013. BW Offshore expects that the construction cost will reach USD 450 million.

08 LOOK AHEAD

WHATS UPCOMING OVER THE NEXT FEW MONTHS



WHAT OUR CRYSTAL BALL TELLS US...

THE WORD OF THE DAY IS OPTIMIZATION.

In our Look Ahead section we often focus on one area and the trends likely to gain attention in the coming months. In this edition and our first Look Ahead of the year, we will focus on what we expect in the Brazilian Offshore market for 2013, with a slightly broader view. During our research on offshore vessel availability, Oil Company's vessel demand and supply base and infrastructure for 2013, a common word jumps ahead of any other subject and that is "optimization".

It is interesting to get to this point, as in previous years the market seemed more concerned with availability, level of industry demand, spot versus long term vessel hire strategy than about how to efficiently utilize all of that. Not that managing resources was not a concern this was never the case however it was not the focus. This will change in 2013, pushed by Petrobras and followed by other International oil companies like Shell, BP, BG and Statoil. Logistics management and resources optimization has gained significant attention over demand or vessel hire strategy, which it possibly deserves. Going deeper into the reasons for such a belated movement, it is possible to conclude that in fact 2013 is looking like the year some projects are achieving maturity: It's the 18 year-old boy getting his driver's license and having to drive on his own.

And if we look at the industry portfolio, leaving Petrobras 90's fields out of it as well as BP's Polvo and Shell's Bijupirá & Salema, just about every other field development is now less than 3 years on the run. In part, that justifies the former

industry focus on resource availability and how to get a hold of them. In the early-life of field development and production, considering that Brazil is an incipient market, it is only logical to focus on getting any resources at all, rather than seeking the best resource or the optimization upfront. For instance establishing sharing agreements, and running the risk of not having the resources to manage. So what justifies that 2013 becomes the year of optimization then?

The answer is a simple word: scale. In our magazine we have a couple of times covered the subject of the number of offshore vessels in Guanabara Bay. And in those articles we have said that, if we looked out of the Rio-Niteroi Bridge 5 years ago, we would see no more than a handful of vessels. Today we can see over 50 of them. We have also said that not all of those vessels are idle, but there are a number of them working on the "spot" market - or at least the local version of spot. That means that in case of urgency charterers can access tonnage. Further, the number of vessels in the Bay is also a result of two industry bottlenecks that are in the arena of optimization and will receive focus this year: the legal impediments to vessel sharing between operators and the lack of infrastructure i.e. number and quality of offshore support terminals.

In the case of vessel sharing, the oil industry challenges are firstly in-house: oil companies that have achieved production status are slowly but steadily beginning to share resources between their "drilling", "production" and "subsea" teams. In as much as it sounds illogical, there is a lot of corporatism and "empire building" in the oil companies that prevent them from achieving their own internal

09 LOOK AHEAD

WHAT'S UPCOMING OVER THE NEXT FEW MONTHS



optimization targets. Very often the teams do not speak the same language and are resistant to "giving out" the logistics management to logistics professionals. Secondly, the enemy is on the outside. As an example look at the Oil Spill regulation which does not allow operators to share their resources up to 60 hours of response times in Brazil. So it is common to see each operator having their own emergency response "idle" fleet.

The history gets repeated in terms of infrastructure. Offshore support terminals use to have an "easy life", as the oil companies were eager to get any space at all. But in a combination of more terminals becoming available and, in terms, a slowdown in activity, we see serious terminal operators giving more and more focus on terminal optimization. Not only that, but port operators are focusing on no longer getting perceived as "the port", but in line with mature markets, become true logistics operators, quite often having their employees sitting in the offices of oil companies or getting the oil company to have an office at the terminal, ensuring a true integrated activity for optimized results.

All of that comes together in a year when the industry is giving negative signals in terms of activity. In periods like that, "optimization" also gains a natural detachment. In as much as the conclusion is that with lower demand the market may see a downturn on rate levels, this is not necessarily the case, especially for offshore support vessels that

can attend such specific "optimized" use. DP2 vessels with FiFi and Oil Recovery notation find heated rates in Brazil and it is expected that the year will keep such momentum up. To surf the wave of optimization, the owners can place their efforts in multi-purpose vessels and be ready to discuss contractual demands for multiple charterers, calling at multiple terminals. And the terminals will be ready to become integrated operators for the industry. That in order to be ready to supply the oil companies when they find their way to integrated contract services, whether on their own internal integration or several companies joining forces to share the same contract, will be optimized!



A WORD WITH WESTSHORE

"We truly hope Petrobras' targets in the coming years may provide a further boost to the Brazilian offshore market."

Wilson Nobre



10 SPOTLIGHT ON VEGA OFFSHORE

INTERVIEW WITH SUPPLIERS AND MAJOR PLAYERS IN THE BRAZILIAN MARKET



This month we will talk a little bit about VEGA OFFSHORE, a Norwegian OSV Owner and operator which has just opened a new office in Rio de Janeiro. Vega Offshore recently won PETROBRAS Tenders for 2 PSVS and 4 OSRV's for 4 years contract period. We spoke with Mr. Kjell Eivind Karlsen one of the main directors of the company.



CAMILA LOPES, KJELL EIVIND KARLSEN AND PATRICIA BARBULLA



“ We have put a lot of efforts to get the Vega Corona and Vega Crusader on-hire as quick as possible and thanks to good co-operation between all parts both vessels have already been accepted by Petrobras. We expect the OSRVs to arrive during first quarter this year. ”

Q: Who is Vega Offshore? - Vega Offshore is a company that was founded in 2011 with the main focus on long term charters in Brazil, in addition to activity in West Africa and Asia. We are specialized in PSV, OSRV and AHTS.

Q: Why the Brazilian market? - We like the long visibility that the Petrobras contracts gives, and the way Petrobras organize their tender process makes it easier to tailor-make our vessels for their requirements. We see many opportunities in Brazil and are of course also interested in working with other international oil companies in Brazil in the future.

Q: What are the biggest challenges to operate in Brazil's offshore market in your opinion as a foreign company? - Crewing is always an issue. Since education of Brazilian crew does not follow the demand, the crew cost gets very expensive. However, although Brazilian crew is costly, we also see the benefit of having local crew due to their local knowledge, language, cultural understanding in addition to that it is appreciated by our Charterers and all this leads to quality and a safe operation of our vessels. Another challenge was also to find a good General Manager for the startup of Vega Offshore's office in Rio de Janeiro, which we feel we succeeded when Patricia Barbulla joined Vega Offshore Brazil Ltda. in August. With her "Carioca"/Norwegian background and long experience in the shipping industry she has kick-started our Brazilian operation from day one.

Q: Can you tell us more about Vega's perspectives for the future? - We have now opened our local office in Flamengo, and have also started to increase our staff in Rio for future growth in Brazil as a part of our long term planning. Vega has, among other, 4+4 UT 755 LN under construction, and we think some of them will be deployed in Brazil. We are also looking into building vessels in Brazil but so far we have not yet found the perfect yard and projects, but one of our focus areas is this going forward in Brazil.

INTERESTING FACTS ABOUT REPETRO

REPETRO - the special tax regime for importing and exporting goods for the exploration and drilling of oil and gas, aims at bringing foreign assets to Brazil enjoying a suspension or even an exemption of taxes.



There are divided opinions about the REPETRO regime, created in 1999 and it is through reducing the tax burden without incidence of federal taxes - II, IPI, PIS and COFINS, plus the additional freight for renewal of mer-

chant marine - AFRMM, which these taxes are suspended for the period of use in the regime. They were instrumental in encouraging the development of the industry engaged in the research and production of oil of major importance for the development of the country. Especially when discussing the impact of the regime on local companies under the conditions of competition.

To understand a little bit about the story of REPETRO's regime it's necessary to think back to the 90's. This was an important era for the national oil industry due to various transformations, such as the opening of the Brazilian economy with monopolies closed down and privatization that dissolved the strong links between state enterprises providing public services and local suppliers of equipment and services.

Petrobras maintained control of exploration, production, refining and the transportation of oil for a long period, however Law 9478 stipulated in 1997 disrupted possession exercised by Petrobras enabling operating companies and service providers whether local or foreign to compete with state-owned enterprises in all these segments of activities. With the new changes, the country is going to present significant opportunities to industry suppliers allowing the entry of new companies operating in both the upstream (exploration and production) and the downstream (transportation, refining and distribution) of the oil industry.

However, the tax burden remains heavy and still growing, with the Petroleum Act of 1997 the country started heavily taxing the production and principally those engaged in Upstream. Therefore in 1999, a new

tax regime called REPETRO was deployed in order to relieve the federal tax provision of goods for exploration and production of oil and natural gas as a form of tax incentives to facilitate investments in oil activity and in particular with the demand arising from the pre-salt. The regime continues today, REPETRO which is the term for the application to obtain the regime and was granted this until year end 2020. This mainly applies to the following goods:

- Vessels intended for research and exploration of deposits of petroleum or natural gas from those designed to support and be used as storage in these activities;
- Machinery, tools and equipment for the research and production of petroleum or natural gas;
- Drilling rigs and production of oil or natural gas, as well as for support in these activities;
- Structures specially designed to handle platforms.

REPETRO must be used exclusively by legal personnel qualified by customs and a request for the regime must be upon submission of the Request for Concession Regime (CPR), which should be accompanied by the ADE qualification to REPETRO; the tax obligations suspended by the application of the regime must be incorporated in a document called the Statement of Responsibility (TR).

Nowadays, the REPETRO regime is handled by customs and mainly benefits the operators of the oil and gas fields, however in accordance of Brazilian government the REPETRO will be updated in 2013. The promise of modernization and expansion of the regime is arguably an important tool for the development of E & P within oil and gas, however we know that there is still much to do in the sphere of oversight, removing any loopholes for opportunism. It is also important to reevaluate other areas of importance for the country which could benefit the regime. It is also important to prioritize the domestic industry at the moment and recast so that the national industry is left free and able to compete with foreign suppliers and "traditional" companies whose products are entering freely into the country and have already secured a comfortable position in the Brazilian market.

by Eliana Lazarini



12 É ISSO AÍ!

FINAL THOUGHTS FOR THIS MONTH



WHAT TO EXPECT IN 2013?

And a brand new year begins, yet again with a large dose of hope and a small portion of fear regarding what the future holds for Brazil.

Carnival is less than a month away, and we can already hear the drums beating, preparing the country for the world famous and incredibly joyful four-day celebration, from the 9th to 12th of February! Street parties and samba schools began intensifying their rehearsals for the parades as soon as the sun rose in 2013... Some people say that the year begins in Brazil after Carnival is finished. Is that so? Well, most people are still taking some days off to enjoy summer, which this year has proved to be especially warm. Rio de Janeiro had the hottest day ever, recording 43.2°C in late December, which felt like 48°C! The expectation is that Rio will keep its high temperatures and its beaches full of the expected 3.2 million tourists for a longer period this summer.

And when Carnival ends, the country will shift into high gear, specialists say. There are still investments in stadiums and infrastructure that must be made for the FIFA Confederations Cup which will take place in June. Will Brazil be ready to host an event of such scale and pass the test before the 2014 World Cup and the 2016 Olympic Games? Most people believe it will, in its own "Brazilian Way". Another large event which will call the attention especially to Rio is the World Youth Day promoted every year by the Roman Catholic Church, which will have the presence of the Pope Benedict XVI from July 23rd to the 28th and is expected to draw millions of young faithful to Copacabana beach for the main celebration. Brazil has an estimated 125 million Catholics, and is the largest Catholic country in the world. Christianity has a strong influence on the culture and politics, being the foundation to several discussions about any public matter.

And will Brazil grow in 2013? Last year, Brazilian economy did not grow more than 1.5%. Nonetheless, the local market held strong, which favors economic recovery in 2013. Now this year, the expectation is that the economy will grow a little more, reaching about 3.5%. According to specialists, this will mainly be driven by changes in the global economic scenario, with the decrease of the international crisis, a higher internal growth rate in China, and the recovery of the Euro.

In regard to the BRL exchange rate to USD, the government has been strongly signaling its desire to keep the rate at 2.10 in 2013, considering it to be compatible with a competitive export industry and at the same time not pushing inflation for export goods. The Central Bank in Brazil states it will not only intervene in order to keep the national currency at that level, but it will also keep inflation under control around its expectation which is approximately 5.5%. In regard to the interest rate (Selic index), the government tends to increase the rate in the second semester of 2013, in order to reach around 7.5%.

President Dilma Rousseff has been focusing her management on fighting corruption and defending ethics, which makes her very popular among the electorate, but more is needed. The country continues to face infrastructure and mobility problems, while the Growth Acceleration Program (PAC) walks at a pace slower than expected, and even the risk of future bottlenecks in the energy situation returned to frighten the nation. Also, the president shall not forget the difficulties arising from social inclusion. In the political world, the re-election of Obama is expected to ensure the maintenance of a strong neighbor policy between Brazil and the Americans, and therefore stability with the greatest world power considered bellicose by some countries.



Therefore, 2013 will be a year full of spotlights and challenges for Brazil's economy, for political leaders, and for all Brazilians who are working hard on the upcoming events so that the country can welcome foreign investors and visitors, improve productivity and logistics, and keep qualifying professionals to meet all the demands. We truly believe that 2013 will be a very special year for Brazil and to the oil and gas industry as well, hoping for a positive outcome to all the stakeholders.