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Brazil takes step to becoming 'world's preferred destination for gas investments'

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Brazil could become the world's preferred destination for gas investments if congress passes a bill on regulations for the market, a specialist told BNamericas.

The lower house agreed on Tuesday by 323 votes to 113 to tag the bill on new regulations for the gas market 'urgent', raising the hopes of the government that the final text could be approved by the end of August. The bill still needs approval in the senate.

"I have no doubt that Brazil could become the world's preferred destination for gas investments. The legal security and simplification of regulations that we expect as a consequence of the bill's approval will attract it," Felipe Feres, partner for infrastructure and energy issues at law firm Mattos Filho, told BNamericas.

"In terms of natural gas demand and reserves that could be monetized in the short and medium terms, no other country in South America is comparable to Brazil."

The federal government has moved ahead with the Novo Mercado de Gás (new gas market) program intended to open up the market to private investors to make the sector more competitive and reduce final prices, with several regulations updated in recent years, but the bill is considered crucial to give investors greater legal security. The efforts also include the decision of state-run Petrobras to withdraw from the market with a series of privatizations since the company still controls most of Brazil's downstream and midstream gas activities.

"The Brazilian gas market is still less developed than the ones in Argentina and Colombia, for example. This is one of our last chances to develop this sector and we need to confirm the decision to open the market now," Lívia Amorim, a specialist in energy and regulations at law firm Souto Correa, told BNamericas.

The main points of the bill involve allowing companies to build new pipelines through authorizations, instead of the concession contracts currently required, and the implementation of new transport contracts under the in-and-out model, which facilitates the separate contracting of input and output capacities and commercialization of gas regardless of the location in the network. It will also establish the rules for the access of private firms to essential gas infrastructure to bring the resource from offshore fields to the coast, which is considered crucial given the strong growth in pre-salt output expected for the coming years.

However, there are some controversial points that still need to be discussed before final approval of the bill, which could delay its publication, such as the so-called Brasduto fund, which would allow for the use of pre-salt funds to help finance the construction of new pipelines. Energy minister Bento Albuquerque is among the officials opposed to the proposal, and the current text of the bill has eliminated the option, but some legislators are requesting its inclusion.

In addition, after the bill's approval regulator ANP will need to advance on several regulatory consolidations, such as the rules to access pipelines and negotiations for private firms to use Petrobras' infrastructure.

"The bill's approval is an important step, but not the final one. There is still a lot to be done and it's important that the upcoming phases show respect to contracts and a commitment to attract investments," Amorim said.

It will also be necessary to update state regulations to standardize nationwide gas trade and regulate free gas consumers. Some states, such as Rio de Janeiro, have already advanced on such updates, expecting to benefit from the upcoming investments. Local industry federation Firjan estimates 45bn reais (US$8.68bn) of investments would go to Rio de Janeiro in the coming years.

"Regulations will need to be as simple as possible to promote investments. A good federal bill will be useless if local regulations are complex and lock up investments," Feres said.

The government expects the efforts currently underway will help prompt new investments in infrastructure and expand the gas transport network. Brazil currently has 9,409km of gas transportation pipelines, which connect 187 city gates, 33 gas compression stations, 14 gas processing plants, and three LNG regasification terminals. However, that is considered relatively small given the size of the country. By comparison, neighboring Argentina has a 30,000km gas pipeline network and the US has 485,000km of such ducts.

"Argentine gas systems are bigger than the Brazilian ones, but its legal framework still has a heavy component of state participation, with control of commodities and service prices. Therefore, Brazil's gas regulations will be the most advanced in South America and the country's new regime will be comparable to the one seen in the United States," according to Feres.

Power trading association Abraceel estimates that the new rules could trigger investments of around 60bn reais (US$10.9bn) over the next 10 years. A study recently published by industry confederation CNI suggested that if the new regulations succeed in increasing competitiveness and lead to a 50% reduction in gas prices, the sector could attract US$31bn in annual investments by 2030.

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