

BRAZILIAN INVESTMENT INSIGHTS

ISSUE 2024 – OCTOBER



TAX CHANGES OFFER INVESTMENT INCENTIVES IN BRAZIL
THE CONNECTION BETWEEN ENERGY & INFRASTRUCTURE
ROUNDTABLE WITH MAHA ENERGY

2024 IBA ANNUAL CONFERENCE ESPECIAL

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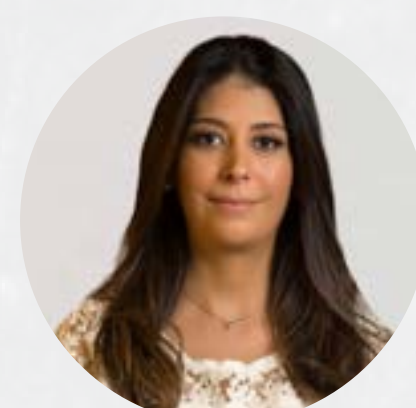


Meet our insights team



Roberto Vianna do R. Barros
Partner, Banking & Finance

Roberto brings a wealth of experience in corporate, capital markets, project finance and banking law, representing a wide range of investors and commercial banks, as well as Brazilian and international companies in various sectors of the economy.



Paula Padilha Cabral Falbo
Partner, Energy & Natural Resources:
Power and Infrastructure

Paula has extensive expertise in infrastructure, especially in the power and natural resources areas. In addition to her experience in large law firms, she also worked as a lawyer responsible for the legal and regulatory department of one of the main private electricity transmission concessionaires.



Alberto Vieira
Partner, Corporate/M&A

Alberto is highly skilled in corporate law, mergers & acquisitions and contracts. He has represented several national and international clients in acquisitions, cross-border transactions, joint venture formations and corporate restructurings.



Daniela Davila
Partner and Head, Energy
& Natural Resources

Daniela is a pioneer in Oil & Gas and Offshore projects in Brazil. She played a notable role in structuring financing for projects for the development of oil and natural gas fields, which would become a reference for this type of transaction in the country.



Thiago Luiz da Silva
Partner, Energy & Natural
Resources

Thiago has a regulatory background and over 15 years of legal practice, most dedicated to foreign companies. He is specialised in hydrogen, offshore wind, offshore Oil & Gas operations, and Natural Gas. He has participated in numerous transactions across the industry and support the respective financing.

Welcome to the 2024 edition of Brazilian Investment Insights.

As Vieira Rezende approaches our 30-year anniversary, we have seen another change in government defined by a more centralised approach to politics, in what was a highly polarised election.

This polarisation of politics has been witnessed the world over, underpinned by a period of global instability. Firstly with the spread of Covid-19 and subsequent lockdowns, followed by a global energy crisis which has led governments to focus the spotlight on geo-politics, energy production, and greater energy sufficiency.

Brazil, with a landmass bigger than Europe, is the fifth largest country in the world. As Kjetil Solbraekke, CEO of Maha Energy says in this issue's roundtable interview, this is just one of the factors putting Brazil in a fantastic position to be a market maker in energy. We have under-exploited oil and gas fields to meet Brazil and the world's energy needs while we transition to more sustainable sources. And with a long history of wind and solar generation, Brazil is well positioned for further developments in sustainable energy, including green hydrogen – a topic we explore [on page 8](#).

INFRASTRUCTURE OPPORTUNITIES

The country's infrastructure requires substantial investment, particularly in urban areas and in terms of energy capacity and accessibility. Funding is committed and starting to come through, but there is a still shortfall, which presents an opportunity for investors.

According to the Brazilian Association of Infrastructure and Key Industries (ABDIB), the need for substantial resources is estimated at R\$ 462.3 billion annually. To date, R\$ 213 billion is to be injected, primarily for energy projects. The new federal government's PAC (Growth Acceleration Program) promises to invest around R\$ 1.7 trillion in infrastructure by 2030, with R\$ 1.4 trillion anticipated by 2026, some of which is expected to come from private sector investment.

To attract these investments, Brazil provides legal security, risk mitigation, and socio-environmental sustainability. This is in stark contrast with neighbouring countries that are experiencing greater political instability, authoritarianism, and high inflation. Additionally, recent approval of the infrastructure debenture law should provide new tax incentives for the sector, paving the way for significant growth and development.

Brazil is already among the top 10 recipients of foreign direct investment (FDI) globally, leading in Latin America. In the first quarter of 2024, FDI reached US\$ 9.6 billion. With significant investment opportunities in infrastructure, and the transition to a low-carbon economy, investment looks set to continue. We explore infrastructure bonds, and other options for environmental, social and governance (ESG) investing in our article [on page 7](#). ►



A UNIQUE ENVIRONMENT

As well as mining and renewable energy, Brazil boasts diversity in climate, soil, and vegetation that benefits a wide mix of agriculture. This sector is vital to the national economy, with Brazil being one of the largest producers and exporters of agricultural goods, as well as providing scope for further employment to rural areas.

The Brazilian economy, one of the world's top 10, is characterized by a diverse sectoral distribution typical of mature economies: the services sector contributes 67.4% to GDP, industry 25.5%, and agriculture 7.1%. This diversity is reflected in a robust domestic market, prominent in industries such as vehicles, cosmetics, textiles, electronics, construction materials, mining, agricultural equipment, and aerospace.

POLITICAL CLIMATE

At last year's International Bar Association (IBA) Conference, it was apparent that legal colleagues from across the world were interested to discuss geopolitics. We all recognize that with political uncertainty and change comes challenge and opportunity for clients, as well as increasing legal complexity.

For Brazil, politically, the country is under the third term of Luiz Inácio Lula da Silva. President Lula governed in 2002 and 2006 and elected his successor Dilma Rousseff in 2010 and 2014. Lula won a tight race against Jair Bolsonaro, president in 2018, by expanding his alliance from the left to the centre and appointing former adversary Geraldo Alckmin as vice president.

Lula is known for his pragmatism and ability to dialogue with various political groups. He formed a coalition with centrist parties and ceded important ministries, managing to pass a long-awaited tax reform, which complements labour, pension, and fiscal reforms from previous governments.

Against this backdrop, Brazil has emerged as a country of political stability, and with it a growing economy. Since the 1988 Constitution, the country has developed a track record of strong institutions, a reliable political and electoral system, and an independent judiciary.

OPTIMISTIC OUTLOOK

The outlook for the coming years is optimistic, with new legal frameworks approved for public concessions, attracting investments, and economic modernization.

Population in Brazil currently stands at 220.6 million, with an unemployment rate of 7.5%. Inflation for this year is projected at 3.8%, below the target ceiling, and GDP growth is estimated at 2.8%.

The country is attractive to investors and Brazil's international credibility has been reinforced by hosting global events such as the 2014 World Cup and the 2016 Olympic Games. We will gain further prominence on the world stage with the upcoming G20 summit, and COP30 in 2025. The future looks bright for Brazil.

This issue of the magazine is timed for publication during IBA 2024. We hope to see you there or hear from you soon. ■

Best wishes,

Pedro Hermeto

Partner and CEO





Roberto Vianna do R. Barros
Partner, Banking & Finance

Tax changes offer investment incentives in Brazil

New opportunities in sustainable finance

Recent changes to Brazil's notoriously complex tax laws now make sustainable investing in Brazil a more appealing prospect – for both International Debt Capital Markets and the international law firms working with them.

The Brazilian government has created new tax incentives for debt transactions, making it more beneficial to structure deals in International Capital Markets that were previously limited to local capital markets. What's more, where bond issues have previously been limited to frequent issuers and large Brazilian companies, these new tax incentives make it possible to structure deals that are more accessible to:

- **Concessionaires of public services** (private companies with government authorisation to provide public services).
- **Special Purpose Companies** (SPCs) that are developing infrastructure projects in Brazil. ►

This change opens significant opportunities to a broader audience, including investment banks that cover Latin America, the international law firms that support them, and companies delivering sustainability and other projects in Brazil, allowing all parties to benefit while contributing to Brazil's sustainable development goals.

INCENTIVISED INFRASTRUCTURE BONDS

Changes related to Infrastructure Bonds will be of particular interest to all these groups, where new tax incentives are favourable for investors and issuers alike.

When Infrastructure Bonds are issued for projects that qualify as 'priority projects' with the Brazilian government, there isn't the usual Withholding Tax (WHT) on interest payments made by Brazilian resident bond issuers to non-resident bondholders. This decreases the cost by 15% for the investor and issuer, where gross-up provisions would apply (an additional amount added to an interest payment to cover income taxes the recipient owes).

These incentives make Brazilian Infrastructure Bonds a viable option to finance qualifying projects in both the international and local markets. So it's important that international investors are aware of this opportunity,

WHY INVEST IN BRAZIL?

Brazil is one of the ten largest economies in the world, with a very different profile to other countries in the region. Brazil is politically stable with strong democratic institutions, as demonstrated by the transition of power following the last election. Inflation is under control and interest rates are going down.

as well as Brazilian companies with projects that might qualify, such as sanitation infrastructure projects, clean energy, or environmentally friendly transport hubs.

The major components of the Brazilian economy are sound. This creates a macro economic climate that is in good shape for sustainable investments, with a government that is keen to foster sustainability projects and encourage international investment in this area.

In addition, there's a bottleneck of infrastructure projects in Brazil. The fundamentals are solid but there are still gaps. With a lot to do and insufficient finance available in local markets, the liquidity of international markets is needed to finance these projects. And significant tax incentives are in place to attract investment, presenting real opportunities for international investors. ►

"When Infrastructure Bonds are issued for projects that qualify as 'priority projects' with the Brazilian government, there isn't the usual Withholding Tax on interest payments. It's a big incentive and it's important that international investors are aware of this – as well as Brazilian companies with projects that might qualify."

Roberto Vianna do R. Barros, Partner Banking & Finance, Vieira Rezende

ESG BOND OPTIONS

Infrastructure Bonds aren't the only option for those interested in environmental, social and governance (ESG) investing in Brazil:

- Projects with environmental benefits, such as biodiversity conservation, can be funded by Green Bonds. Like Infrastructure Bonds, these projects must also be approved by the government as priority projects if they want to benefit from tax incentives. The difference is that additional third-party verification is required to qualify as a Green Bond.
- The proceeds raised from Social Bonds must be used to fund projects with a positive social impact. This might include vaccine research for endemic diseases such as Covid and the mosquito born Zika virus, for example.
- Projects that contribute to Brazil's sustainable development can be funded by Sustainability Bonds. To qualify, projects must deliver on both green and social objectives. This instrument allows investors to meaningfully align their asset allocation and sustainability goals.

AREAS OF GROWTH AND OPPORTUNITY

Green hydrogen

With the extensive use of hydropower, Brazil's energy matrix is already very green. And while there's still room for investment in solar and wind energy, the next generation of renewable energy investment lies in green hydrogen.

Brazil has the potential to become one of the world's largest exporters of green hydrogen and this presents huge opportunities for investors. Find out why Brazil is one of the most competitive places in the world to produce green hydrogen in our article about the energy transition [on page 10](#).

Sustainable agriculture and reforestation

Sustainable agriculture and reforestation are fundamental to Brazil reaching greenhouse gas emissions targets by 2030. With an energy matrix that is already green, reforestation of degraded areas is needed to reach these targets. This reforestation needs to happen in tandem with a reduction in activities causing emissions, such as the burning of tropical forests for cattle farming and soy production.

Investment is needed to make progress in this area, such as funding viable alternatives to cattle farming and planting projects to re-establish forest cover.

Research and development projects

Research & development (R&D) projects can also be classified as priority projects to qualify for tax incentives. These include scientific research, such as medical research or technology development in general.

The Brazilian government is highly supportive of R&D that will help Brazil keep pace with technological advancements in other BRICS countries – Russia and India in particular, where Brazil is lagging behind. ►



"Huge opportunities lie in sustainable investment in Brazil. But Brazil is not for amateurs. Experienced and knowledgeable legal support is needed to navigate the complexities and reap maximum rewards."

Roberto Vianna do R. Barros, Partner Banking & Finance, Vieira Rezende



NAVIGATING THE COMPLEXITIES

Having a Brazilian law firm on side will help investors, and the international law firms they work with, to navigate the complexities and make the most of the opportunities that Brazil presents.

While investing in priority projects removes the challenges of complex Brazilian tax law, making it simple for investors, a local firm will help all parties navigate the process:

1. **Evaluation and selection** – submitting priority project application to the relevant Brazilian ministry and addressing any gaps, queries or hurdles.
2. **Financing** – structuring the best possible security package and finance agreement for the deal, while securing a package that does not negatively impact the project going forward.
3. **Management of proceeds and impact reporting** – ensuring all financial and impact reporting is accurate and compliant to retain priority project status.
4. **Legal issues** – if there is a problem, agreements must be enforced in a Brazilian court. This can be bureaucratic and time consuming and is one of the challenges of doing business in Brazil. Working with a local law firm offers specialist support should it be needed.

The new Bond structure and changes in tax law are very recent – there is no precedent. Having a partner experienced in the local market to represent you through the process, and in the event of any issues or challenges, provides reassurance and protection. So investors and their partners make the most of the opportunities presented by sustainable investing in Brazil, while streamlining the process and mitigating risks.

GROWING ROLE OF LAW FIRMS

VR wants to raise awareness that Infrastructure Bonds and other ESG investments are a viable option in Brazil. This reflects how we work with all our clients. Our role as a law firm is about more than doing the legal work.

We identify potential opportunities, adding value by bringing projects to the table that might be beneficial. We highlight where opportunities might lie in the market and act as a trusted advisor on these projects. ■

Go to our website to find out more:
www.vieirarezende.com.br/en



Paula Padilha Cabral Falbo
Partner, Energy & Natural Resources:
Power and Infrastructure



Alberto Vieira
Partner, Corporate/M&A

Energy transition in Brazil

Opportunities and challenges in sustainable energy production

With decades of experience in sustainable energy production, and newer production processes primed for expansion, Brazil is at the forefront of the global energy transition. Making it an attractive proposition for investment in this important field.

Whether it's Mergers & Acquisitions (M&A) or new project development, Brazil's energy transition holds vast opportunities – for international investors, the law firms that represent them, and companies in the national and international energy sector.

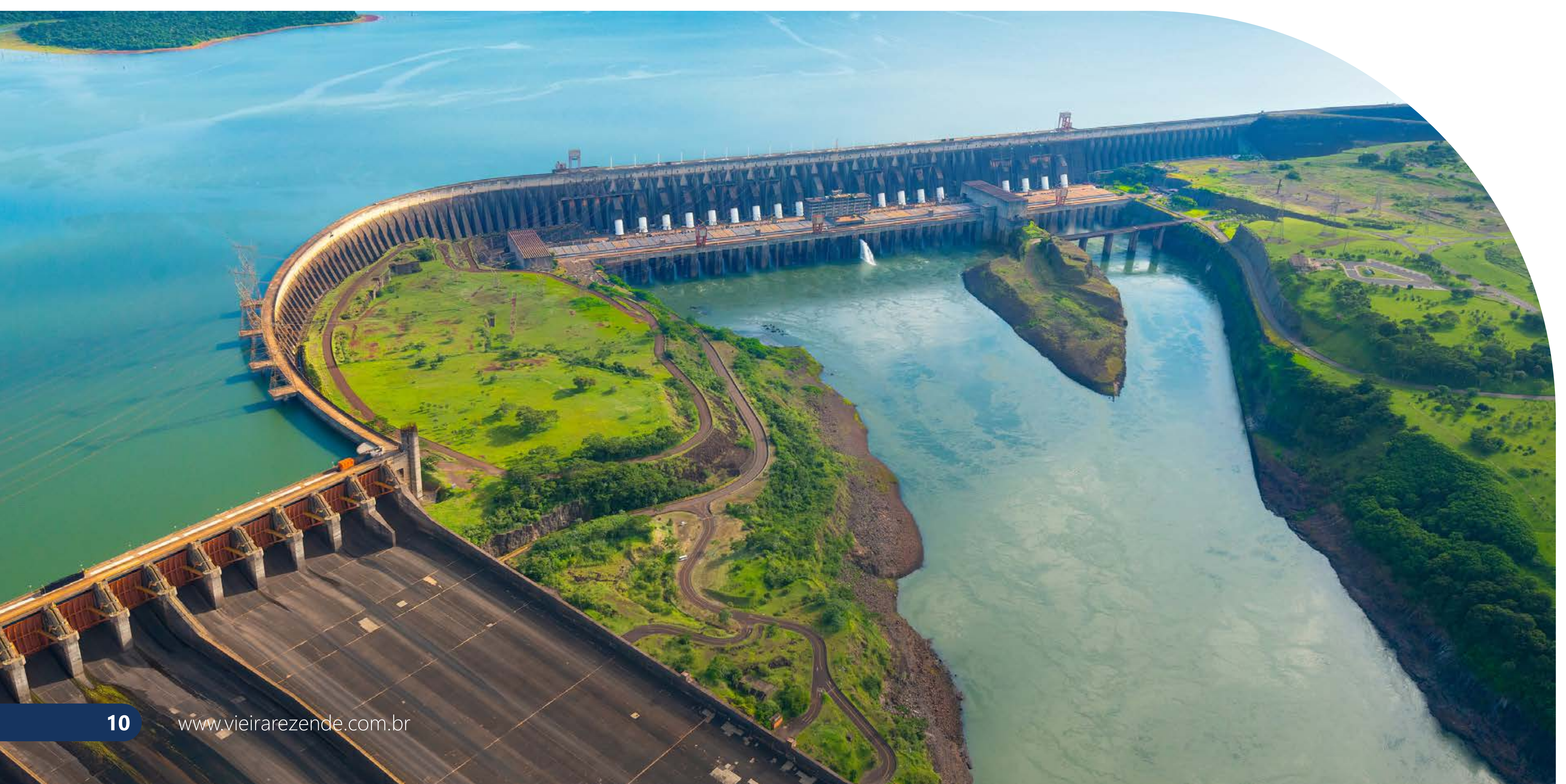
Brazil's energy matrix is already very green and well-diversified and has been for decades. Hydro provides over 60% of the country's power, with coal and

non-renewables supplying less than 2%. The sector is well developed and at the same time, alternative energy sources such as green hydrogen hold the potential for significant future growth.

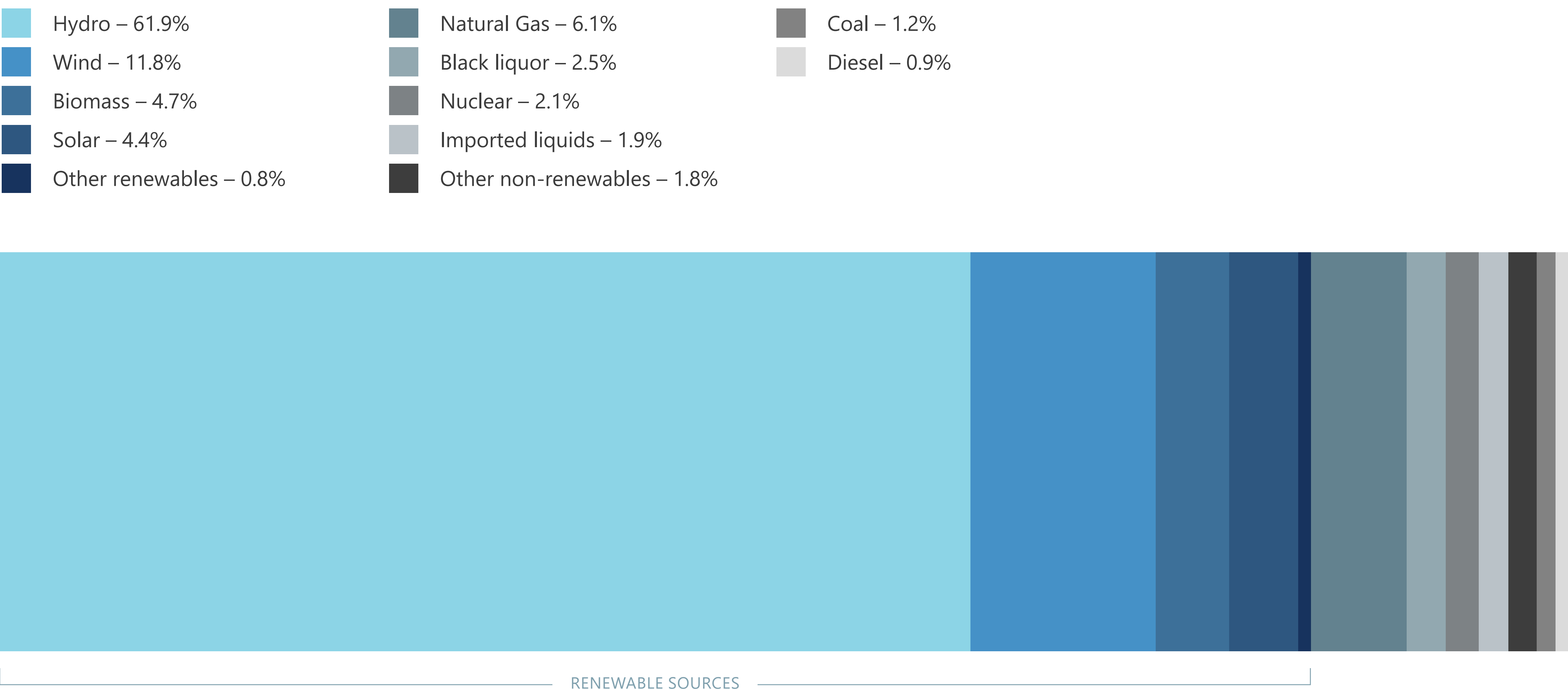
However, there are challenges to Brazil's green energy transition:

- A continuing need for oil in a country where the main means of transport is road.
- High levels of regulation in established areas of sustainable energy production.
- Brazil can be a complex country to do business in.

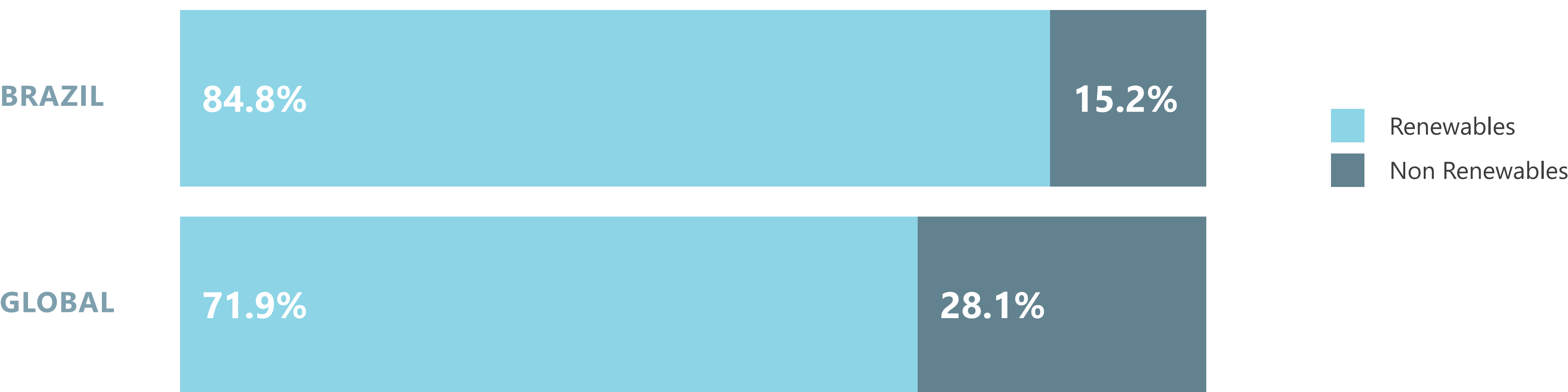
The good news for those with an interest in this market is that these challenges also present opportunities. ►



BRAZIL'S ELECTRICITY MATRIX 2022



GLOBAL RENEWABLE ENERGY PRODUCTION 2021



BRAZIL – A UNIQUE ENVIRONMENT

With a large landmass, numerous rivers, and extensive coastline, Brazil is a unique country that offers the perfect conditions for sustainable energy production.

Overseas investors can be reassured that recent reforms have simplified the country’s notoriously complex tax laws. In addition, Brazil's environmental and corporate laws have also been modernised, reducing the bureaucracy involved in corporate registration and obtaining licenses.

Brazil is more friendly towards corporate investors than many South American countries. The government exerts less control over foreign capital, making it simpler to move funds in and out of the country. The political environment is stable and the energy sector has not been affected by the recent change of government. ▶

"Brazil is a well-placed jurisdiction for investment in the sustainable energy sector. Our unique geography gives us an advantage, alongside our modernised environmental, corporate and tax laws."

Paula Padilha Cabral Falbo, Partner Energy & Natural Resources: Power and Infrastructure, Vieira Rezende

SUSTAINABLE ENERGY OPPORTUNITIES

Green hydrogen – invest in new projects

Green hydrogen is produced by splitting water into hydrogen and oxygen using clean energy. Brazil holds vast potential for the production of green hydrogen for:

- Internal use, for biofuel to replace oil in the transportation sector for example.
- Export to a large international market with a high demand for clean energy.

Around 70% of the cost of green hydrogen is energy use. Due to the current energy matrix in Brazil, the cost-effective and clean energy required to produce green hydrogen is readily available in the form of solar and wind energy. This facilitates the Green Certification required to qualify as green hydrogen, rather than the grey hydrogen produced using energy from unsustainable sources. Discussions are underway between Brazil and the European Union (EU) to finalise details for the Green Certification required for export to Europe. What's more, multiple green hydrogen pilot projects are already in place.

Against this background, Vieira Rezende continues to research and investigate the potential that lies in green hydrogen and we believe it presents a prime opportunity for investment in new projects. Either as a long-term investment or as a short-term opportunity, securing the necessary greenfield sites, land area control, licenses, and project designs for others to then implement.

Experience of the local environment, regulations and complexities is vital, at all stages and on both sides of green hydrogen projects, for those selling and those buying. Vieira Rezende's multi-disciplinary team has the expertise and joined up approach needed to manage these projects from the very beginning. We cover all aspects, from administrative law and regulations to environmental and corporate law, managing everything in one place.

Wind and solar – new projects and M&A

With a large landmass and ample solar energy across most of the country, Brazil is well-placed for even further development in wind and solar power. This expansion is positioned to support growth in the production of green hydrogen by providing the clean energy required – a factor that has contributed to the increase in plans for new development projects, with the physical space for them to grow.

Involvement in both new and existing wind and solar projects is a viable option. However, due to the well-established nature of this market, it is highly regulated. With solar there is a continuing debate about whether the focus should be on centralised or more local generation, and the sector still needs to come to an agreement on this. Due to these complexities, working with a law firm with experience in this area is vital.

A potential area for the development of wind power in Brazil is offshore wind plants, and Vieira Rezende ►



has been commissioned by the World Bank to study the viability of these plants in Brazil. One driver for this is that offshore wind plants have the potential to support the production of green hydrogen, with the sustainable energy and water required all available in one place. Our study looks into the question of whether this approach is viable, in terms of the space and construction needed.

Due to the well-established nature of both wind and solar energy production in Brazil, the primary opportunities lie within M&A for existing projects. In 2023, there were more than 190 solar and wind transactions, involving more than R\$ 50 billion and 50 GW of energy.

The Vieira Rezende team contains specialists in investment funds, private equity, tax, real estate, and other areas that deal with M&A negotiations. This enables us to assist through all phases and peculiarities of the M&A process. We have advised in a variety of sustainable energy M&A cases representing banks, asset managers, private equity funds, venture capital, and their domestic and foreign investors. ►

VIEIRA REZENDE RENEWABLE ENERGY DEALS

1. Company purchase for Invenergy

We supported Invenergy, an American company leading in the operation and development of renewable generation plants, in the purchase of four wind farms. These farms collectively generate approximately 600 MW of installed capacity.

2. Company sale for NEC Projetos Solares

We supported NEC, whose main activity is the generation of electricity, in the sale of four companies to Norwegian company Scatec. The companies are Special Purpose Entities with the rights to construct and operate solar energy farms with an installed capacity of 105 MW.

3. Offshore wind power study for the World Bank

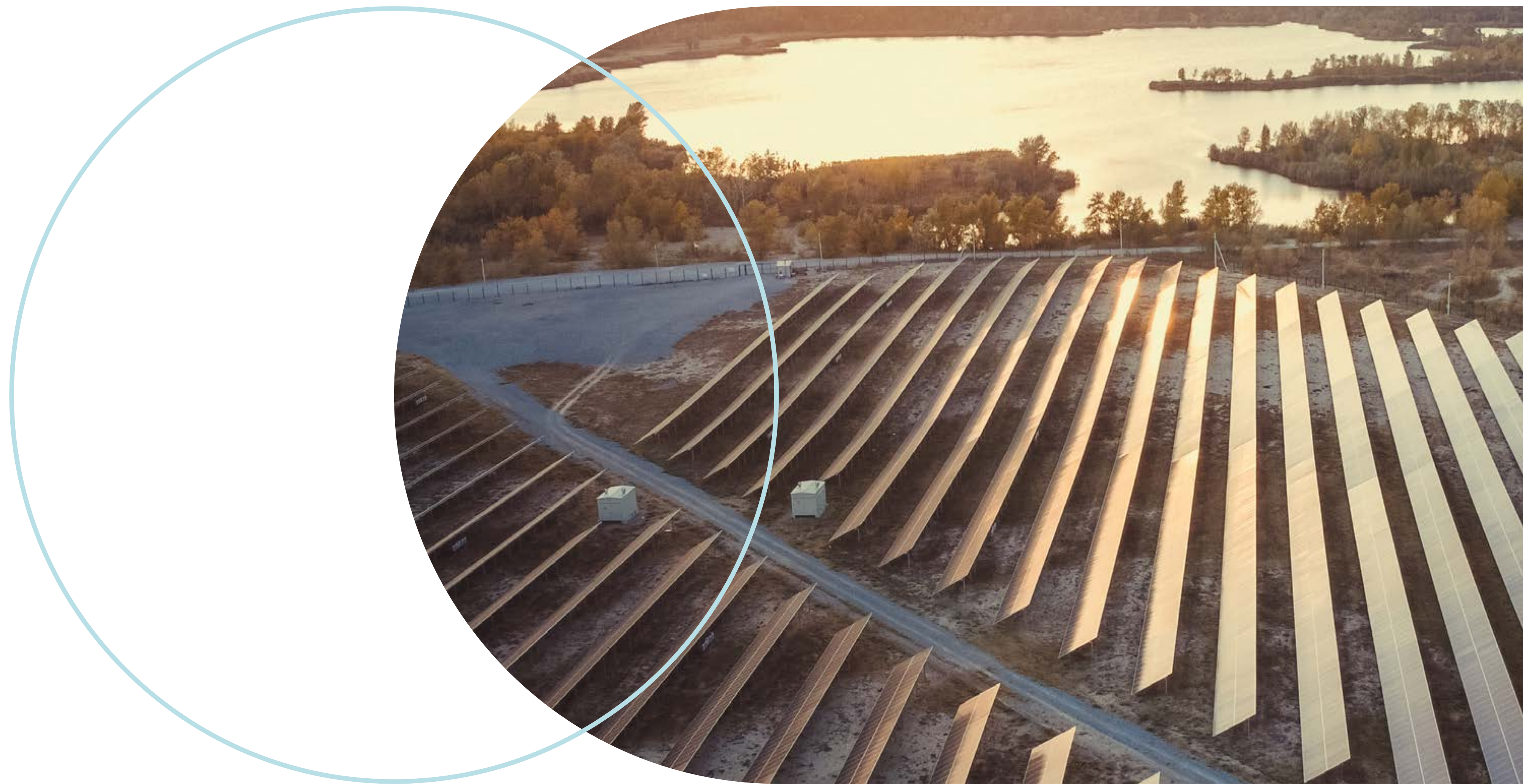
We conducted analysis and prepared the report 'Scenarios for the Development of Offshore Wind Power in Brazil' to support the Brazilian government in defining public policies for energy transition. The work was led by the World Bank and the International Finance Corporation.

4. Dutch Investment Group

We assisted Dutch investors in funding a solar energy plant in the Amazon rainforest. This initiative aimed to support local communities in generating renewable electricity and reducing reliance on fossil fuel-based thermal power plants.

5. Wind farm implementation

We advised Italian multinational renewable energy corporation Enel Green Power on implementing a €454 million wind energy park in the state of Bahia, north eastern Brazil. The Aroeira wind farm, with 81 turbines and a 348 MW capacity, will generate over 1,800 GWh annually, avoiding 980,000 tonnes of CO2 emissions and replacing 345 million cubic metres of gas.



"It's not easy to navigate the complexities of doing business in Brazil. Our team has extensive experience of helping foreign investors in Brazil to deal with the challenges."

Alberto Vieira, Partner Corporate/M&A, Vieira Rezende

INVEST IN BRAZIL

Brazil has proven experience and a well-established sustainable energy sector. Opportunities still lie in areas with a history of success, such as wind and solar energy, as well as in new and emerging areas of sustainable energy production, such as green hydrogen.

The outlook is positive for investment in Brazil's energy transition, with the best returns to be found in long term investments and partnerships. However, local support is advised in a country where doing business can be complicated – and there are restrictions on the operations of international law firms. Vieira Rezende has extensive experience of supporting clients across all aspects and areas of the energy sector.

MULTIDISCIPLINARY TEAM AND LOCAL EXPERTISE

Vieira Rezende is distinguished by our professional excellence. We offer our clients experience, expertise and reliability, delivering all the support you need.

Our team of specialists is well-qualified and offers a breadth and depth of experience in the energy sector and related projects and deals in Brazil.

Our multidisciplinary team contains expertise across over 20 different practice areas. This includes Mergers & Acquisitions, corporate law, tax law, real estate, regulatory issues, and environmental matters in the energy sector. Our finance department works with Brazilian and foreign banks to structure project financing for new projects. ■

Go to our website to find out more:
www.vieirarezende.com.br/en



Roundtable with Maha Energy

An international perspective on investing in Brazil

As an independent player in the oil and gas industry, Maha Energy is focused on developing and optimising mature oilfields to maximise value, seize opportunities, and drive profitability. Since 2016, Vieira Rezende has partnered with DBO Energy and later Maha Energy, supporting their impressive journey of starting and building an oil business. ▶

INTRODUCING OUR ROUND TABLE



Kjetil Solbraekke
CEO of Maha Energy and
founder of DBO Energy



Daniela Davila
Partner and Head, Energy
& Natural Resources,
Vieira Rezende



Thiago Luiz da Silva
Partner, Energy & Natural
Resources, Vieira Rezende

ABOUT KJETIL SOLBRAEKKKE

Kjetil Solbraekke started his career in Norway as a public servant in the Ministry of Energy. He came to Brazil with Hydro Oil & Gas to develop the Peregrino oilfields (now a project of Norwegian oil major Equinor), and then made an incredible journey to become a successful investor in 3R Petroleum Oleo e Gas, an independent oil company that acquired several assets in the Petrobras Divestment Program. Following this, Kjetil facilitated the amalgamation of 3R and Maha Energy (Maha became a shareholder in 3R), fostering the recent merger of 3R and Enauta.

"One of the biggest pieces of advice I would give to anyone interested in this area of opportunity is to find a strong Brazilian partner. Unless you are a big international oil company, you'll have a much better chance of success with a local partner. They have to be the right partner, not just any Brazilian company. You need to be well matched and able to have an open and transparent dialogue."

Kjetil Solbraekke, CEO of Maha Energy

AS A NORWEGIAN COMPANY LISTED ON THE SWEDISH STOCK EXCHANGE, HOW DID MAHA ENERGY COME TO BRAZIL?

KS Maha has collaborated closely with Brazilian private equity firm, Starboard, for several years. Starboard investors originally came to DBO with the purpose to start up 3R. The Maha transaction was initiated by the two partners in collaboration. Starboard bought into Maha and DBO later merged with Maha. They saw that Maha has the experience and competence in oil and gas. We saw the potential that lies within Brazil – and the benefits of working with a strong Brazilian partner.

One of my objectives as CEO was to increase our company valuation. We already had assets in Brazil but were headquartered in Sweden and historically focused on activities in Oman. We changed that focus, divesting assets in Oman and the United States to explore the Brazilian markets.

Initially, we divested two fields in Brazil. This was opportunistic, when a big company in the region expressed an interest and we were able to sell at a good price. It gave us the resources to do more business development and was the starting point to change the whole company. We moved our headquarters to Brazil and switched our focus to Latin America, with a lot of activity in Brazil and Venezuela.

WHERE DO YOU SEE THE BIGGEST OPPORTUNITIES IN BRAZIL?

KS Brazil is the largest offshore oil and gas market in the world. It used to be Norway, so there are similarities and learnings that can be applied. That's why there are a lot of Norwegian companies operating in Brazil – but unlike Norway there is still opportunity for growth. There is plenty of work still to be done on recent projects and many new projects that haven't been identified yet. ►





KS The oil and gas market in Brazil has been a monopoly for decades. This has left a legacy, with very limited diversity of opinion when it comes to technical ideas regarding efficient operations and development. I believe Petrobras is a great company that has been hugely successful as pioneers in deep water development. But no one can prioritise everything.

Understandably the priority for Petrobras was to use the best fields first, only moving down the list when they needed to. This means there are still under-exploited oil and gas reserves with low recovery factor and room for growth. It was a hugely positive move when Petrobras sold some of these assets. It has already resulted in significant increased production, and reduced operating costs, and I am convinced that we will still see more production and developments as a result of the divestments from Petrobras going forward.

The Petrobras divestment has given us the opportunity to invest and operate in smaller fields – with some turning out to be bigger than expected. The next stage will be developing these newer discoveries and uncovering even more. Some Latin American countries have already been through this process, so there are less opportunities and more competition there.

CAN NATURAL GAS STILL BE A CONTENDER IN BRAZIL?

TS The train was moving fast towards divestment of natural gas assets in Brazil, opening opportunities to private players. But with a change in government, this commitment is also changing. We've seen that your business has been impacted. What's your view? How has this affected natural gas plays in Brazil?

KS Again, I don't think it's necessarily the best thing for Petrobras to dominate this market. While Petrobras controls the capacity in the pipelines, it limits the potential to negotiate tariffs and set market price. As long as Petrobras maintains control of many processing plants and pipeline capacity, you might have the gas but you are in the hands of Petrobras to get it to market.

If there is a shortage of gas the game might change, but there is still only one company holding all the capacity in the pipelines – Petrobras. You have to negotiate the tariff and might only get a marginal return as a gas owner in the field.

DD The demand for natural gas is still high. It's still more economic to reinject gas to produce oil in offshore fields, so major producers don't have sufficient motivation to invest in the infrastructure to send gas to shore from many of the presalt fields.

We're still reliant on imports in a volatile market with high prices and low production volumes. The price of natural gas is not decreasing as it needs to, to become competitive. Liquefied natural gas (LNG) is expensive and we're competing with Europe. This was exposed with the war in Ukraine and floating storage regasification units (FSRUs) and LNG shipments going to Germany at a price Brazil couldn't compete with. ►



"There is so much potential, we expect something to happen when it comes to natural gas. It's a long game. You wait for the wave and know how to surf it. This is where it pays off."

Daniela Davila, Partner and Head of Energy & Natural Resources area, Vieira Rezende

KS Security of supply and energy flexibility is key for all countries and Brazil has several sources of energy, with natural gas playing a crucial role in balancing the intermittency of the renewable energy industry. Other countries are running out of gas and the potential in different markets is high, particularly now we have more advanced compression capabilities. There are lots of gas fields in Brazil, and Brazil could play a fantastic role in this market, but the tariff is a challenge and further funding for projects is needed.

WHAT DOES THE CHANGE IN GOVERNMENT AND CHANGE OF PRIORITIES MEAN FOR OIL AND GAS?

DD What sets Maha Energy aside is that you have a long-term view. This is really important in Brazil. Most political strategies are cyclical and Brazil is no different. The Petrobras Divestment Program hasn't continued in the way that was hoped for. I believe this will pass in the long term, but how long do you feel this will take?

KS That's a hard question, but reality usually prevails. It's clear the divestment has been positive. It has been good for the state and production has increased. It's a shame the people (in Petrobras) who worked so hard to make it happen are now seeing their efforts stalled and underappreciated. I think the divestment was the right thing to do and should have been done earlier, and the

KS program should have continued. Petrobras are still unable to prioritise all potential developments in their portfolio. It is a concern that new developments will be significantly postponed, which risks leaving huge development projects and valuable oil in the ground forever. Simply because energy transition is coming and one day the industry will not any longer be interested in developing capital intensive, deep water oil projects with a payback period of 15-20 years. However, I am hopeful the Government will realise this and again open for Petrobras divestments of the fields they are unable to prioritise.

DD Also the world is changing, we are seeing a shortage of finance for investment in oil and gas. The window is closing.

KS I agree and there is almost zero recognition of this as an issue – that's disappointing. It's a step back but I do believe reality will prevail. ▶



WHAT ARE YOUR THOUGHTS ON THE POTENTIAL OF OFFSHORE WIND ENERGY?

TS Brazil is looking to develop its offshore wind capability. How do you think this will move ahead – here and in the rest of the world?

KS There's an old saying that if you jump on a horse and try to ride it in all directions, you won't get anywhere. This limited the ability of Petrobras to exploit fields that weren't on their priority list – and the same applies with renewables. It is natural that Petrobras also participates in the development of renewable resources, but they should not be left alone at least.

In my opinion, anywhere with a long shallow coastline where you can easily put piles into the seabed and put a propellor on top – that has potential. The Northeast of Brazil is an example, perhaps less so in the South outside of Rio, where the coastal water is deep.

I think floating offshore wind is cool but it's hard to see how it can be profitable. My own view on wind production is that it is better onshore or in shallow offshore waters. The drive for offshore is often from companies with offshore operations in oil and gas wanting to manage their own transition to renewables. But wind is very different to oil and I am not a great believer that offshore wind is the answer.

WHAT DO YOU THINK ABOUT HYDROGEN'S POTENTIAL TO FORM A SUBSTANTIAL PART OF THE ENERGY MATRIX?

KS I think it's the right thing to focus on blue or green hydrogen. Brazil is one of the few countries in the world where it makes sense, but hydrogen is very expensive to produce. You're taking the energy out of the wind or gas, and then you're converting it again when you use it to split water. There's a lot of energy lost during all those conversions.

Currently, wind is easier and more profitable, with less energy lost from source to grid. In the long term though, Brazil is well-positioned to develop hydrogen due to its abundant renewable natural resources. The question is how soon it will become a big business – which is a question globally as well.

TS I agree. Green hydrogen doesn't make sense out of the context of energy transition funding. The technology by itself isn't competitive compared to traditional energy production, so it needs funding to bridge the financial gap if it is to compete with oil and gas. We are starting to see this coming through in Brazil, with a green hydrogen bill approved for over R\$ 18bn for investments in hydrogen production.

There is high demand for hydrogen in carbon heavy countries such as Germany. Brazil is in the right position in terms of natural resources to produce and export green hydrogen. But we are in the wrong continent, so we need to find ways to transport it better with low carbon methods. ►

"I'm optimistic for Brazil's future. It's very well organised with key institutions that work well, even with government changes. This brings a feeling of safety for potential investors, which in turn brings growth."

Kjetil Solbraekke, CEO of Maha Energy

SO WHERE DOES BRAZIL GO FROM HERE?

KS I'm optimistic for Brazil's future. When I travel around Latin America and compare Brazil to other countries, I see that Brazil is very well organised. Brazil's institutions work well and we can have confidence in them, even with government changes. This is important for companies looking for opportunities. What's more, there is still low hanging fruit and we could do even more. Brazil's sheer size makes it an important hub for oil and gas, as well as renewable energy.

WHAT IS IT ABOUT WORKING WITH VIEIRA REZENDE THAT ATTRACTED DBO ENERGY AND MAHA ENERGY?

KS When we started working in the region, we knew we needed a local law firm. There were numerous legal issues to deal with when buying assets from Petrobras and no one had done this before. On the one hand, the divestment process from Petrobras was very rigid and on the other, there were different interpretations about what was binding. We realised quickly we needed some good lawyers to help us.

We looked at options but it was a quick and straightforward decision to go with Vieira Rezende. The main reason was that we had trust in Daniela and the team from day one, which was really important. Plus Vieira Rezende have solid expertise in oil and gas. Since working with Vieira Rezende, their tax assistance has also been excellent, alongside support from the rest of the multidisciplinary team. ■



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