

ABESPetro 2024 Report

Summary Version



Summary version of the ABESPetro 2024 Report

- The ABESPetro 2024 Report is the main publication of the association that represents the first tier of the offshore oil and gas supply chain in Brazil
- The 2024 Report was written by the ABESPetro team, based on economic indicators, scientific papers, and data from member companies
- The full version of the 2024 Report, as well as previous editions, can be downloaded from the website www.abespetro.org.br or through this [link](#)
- This version offers the reader a summary of the key elements found in the full report

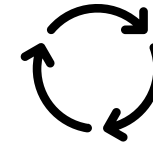
The ABESPetro 2024 Report has three main sections:

- **Industry dynamics**
 - Describes the supply chain and core themes of the industry, such as local content policy, Repetro, innovation policy, and energy transition.
- **Economic indicators and principles**
 - Direct and indirect employment, revenue, allocation of R&D investments, and industrial policy principles
- **ABESPetro's Proposal Agenda**
 - Axis 1: Activity and Axis 2: Industrial Policy

The supply chain interacts with oil companies, but with distinct operations and dynamics



Oil Companies



Goods and services provided by the supply chain for oil exploration and production activities

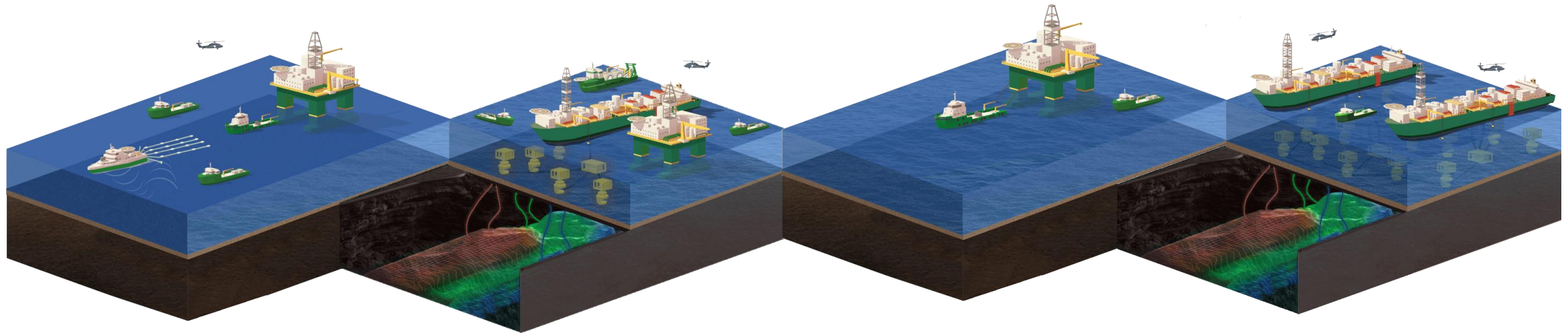
Construction and operation of **Offshore Support Vessels**

Engineering, manufacturing, and maintenance of **subsea equipment**

Construction and operation of **Subsea Infrastructure Installation Vessels**

Construction and operation of **production platforms**

Well plugging, removal of subsea infrastructure, **decommissioning**, and dismantling of production platforms



Geophysics, seismic, and reservoir modeling

Construction and intervention in **production and injection wells**

Construction and operation of **Drilling Rigs**

Engineering, manufacturing, and maintenance of **production and drilling platform equipment**

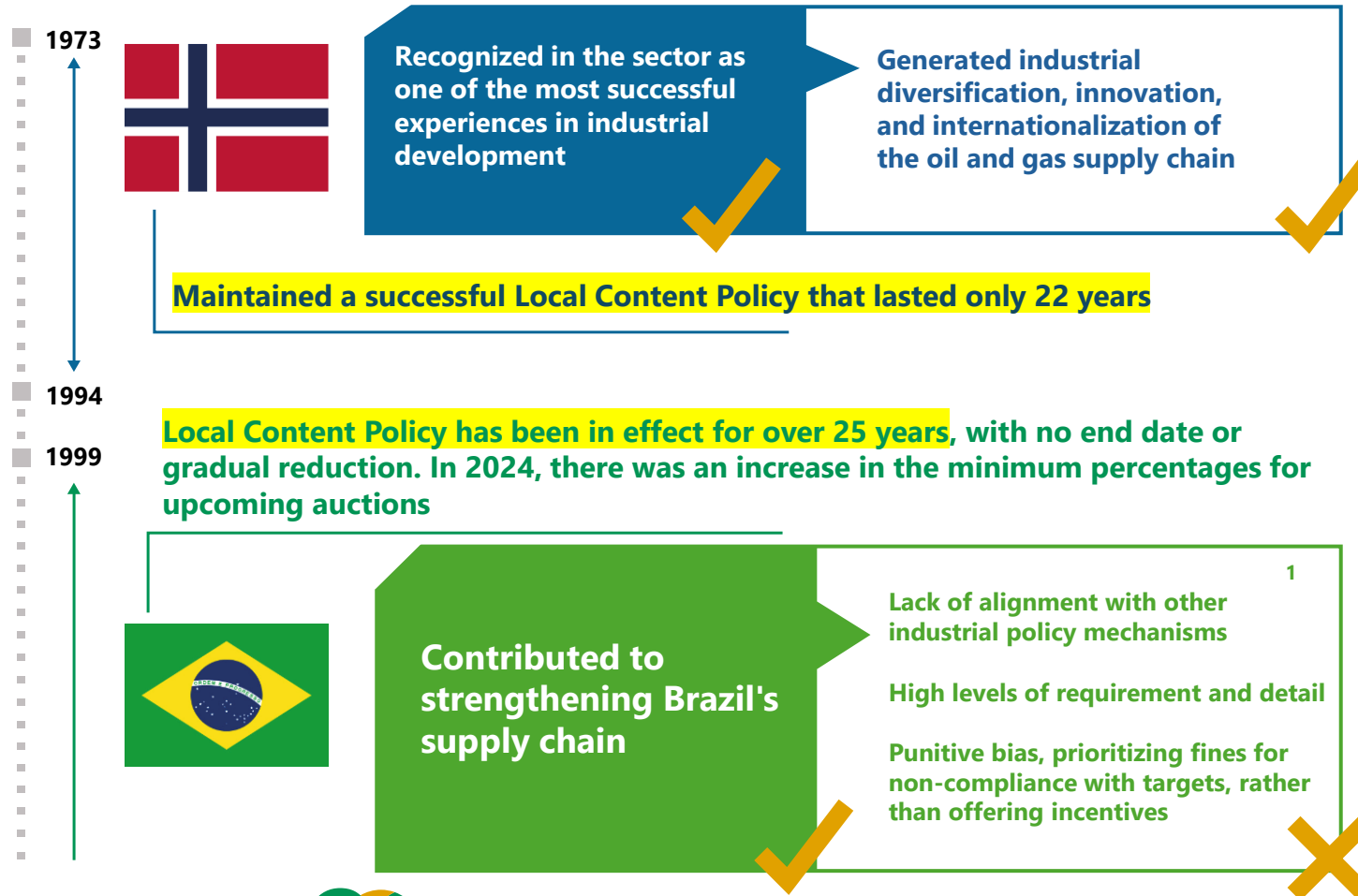
Modifications, **Maintenance**, and Operation of production platforms

Offshore Support, logistics, and transportation services

Three regulatory instruments and the energy transition define the dynamics and the future of the sector

- Local Content rules
- Repetro (special tax regime)
- R&D and Innovation rules
- Energy Transition

Brazilian Local Content rules have punitive bias and are not aligned with other industrial policy mechanisms



Without adequate policies to promote competitiveness and expand the capacity of local companies to meet domestic demand, **the industry faces difficulties in achieving Local Content targets**

Up to 2022:

- **R\$ 1.96 billion in fines**² for non-compliance with Local Content targets
- **374 processes**³ requesting waivers, exempting companies from fulfilling the Local Content commitments contractually assumed

Repetro is a tax incentive designed to channel more investments into exploration and production activities



Oil companies invest approximately **4 to 6 billion dollars** in exploratory activities and in the development of production infrastructure

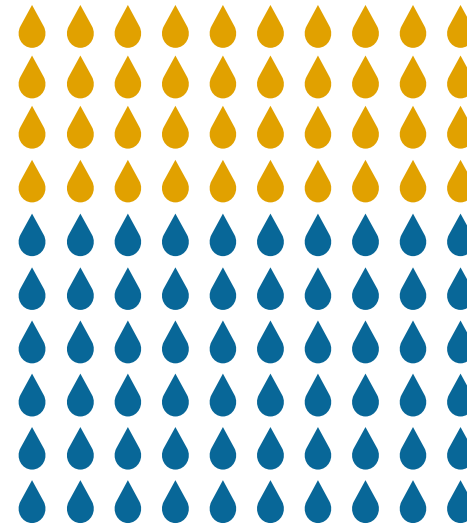


Most of these investments are allocated to the **hiring of drilling rigs, production platforms, and other complex equipment**

Many of which are often imported to Brazil, either temporarily or permanently

Without Repetro,

only 60 out of every 100 reais invested would be effectively applied to productive activities.



Federal and state taxes

Significant reduction of available resources for investing in activities that promote new discoveries and drive industry growth

Federal and state taxes raise the cost of investments by approximately **40%**

Repetro stimulates economic activity and boosts revenue generated from oil-related activities

Repetro suspends federal and state taxes on imports and domestic manufacturing, thereby reducing the costs of activities necessary to enable the production of new fields, while also making projects more attractive

More fields in production

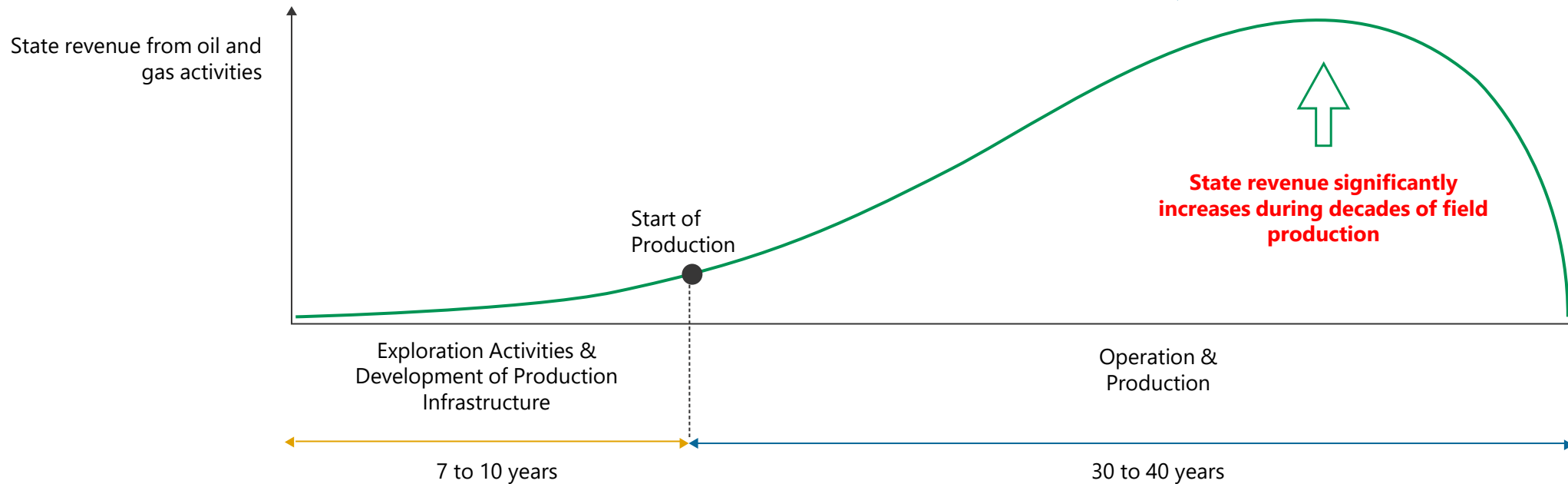
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Increased revenue from taxes, royalties, and special participation

Enhanced project attractiveness

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More competitive auctions with greater government bargaining power



Oilfield service companies struggle to access RD&I resources

Currently, the obligation for R&D investments in the sector amounts to approximately R\$ 4 billion annually. While there have been advancements in regulation, suppliers still access these resources marginally.

Several hurdles prevent oilfield service providers from accessing resources allocated for R&D projects in the oil and gas sector



1

Historically, most resources have been directed towards universities

2

Large-sized companies face limitations in accessing resources

3

Complexity and bureaucracy (risk of expense disallowance)

4

Contract negotiations with oil companies are not always favorable

The energy transition is integrated into our industry, opening new paths for economic development

70%

of oilfield service providers have been requested to implement measures to reduce the carbon footprint of their assets and activities



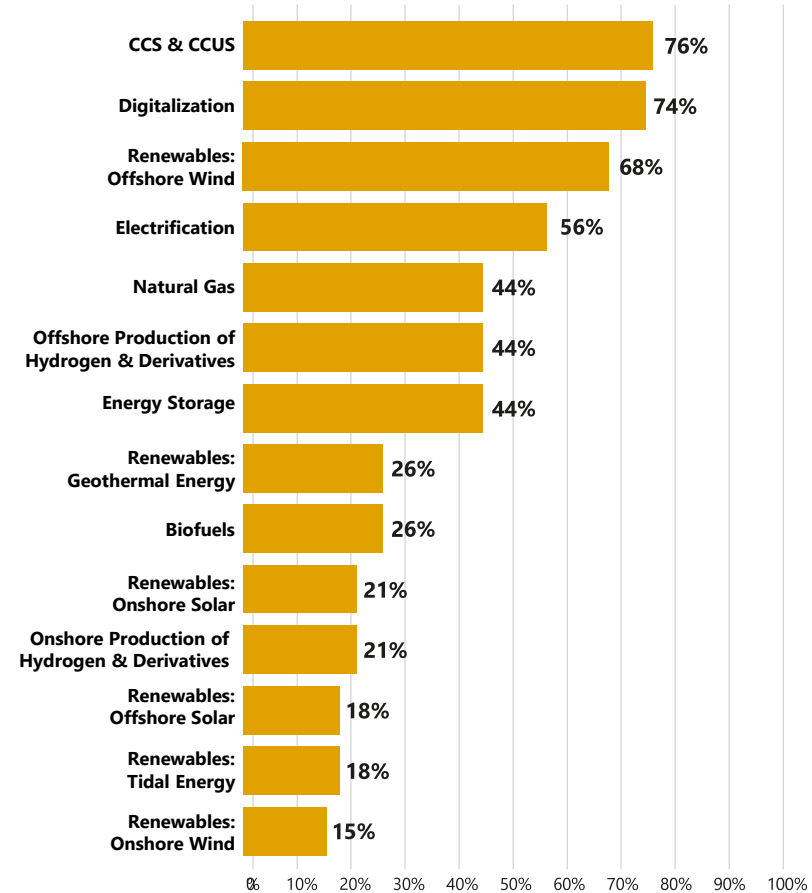
97%

of oilfield service providers plan to follow oil companies in their efforts to expand into other energy markets



91%

of oilfield service providers have short to medium-term plans to engage in the energy transition

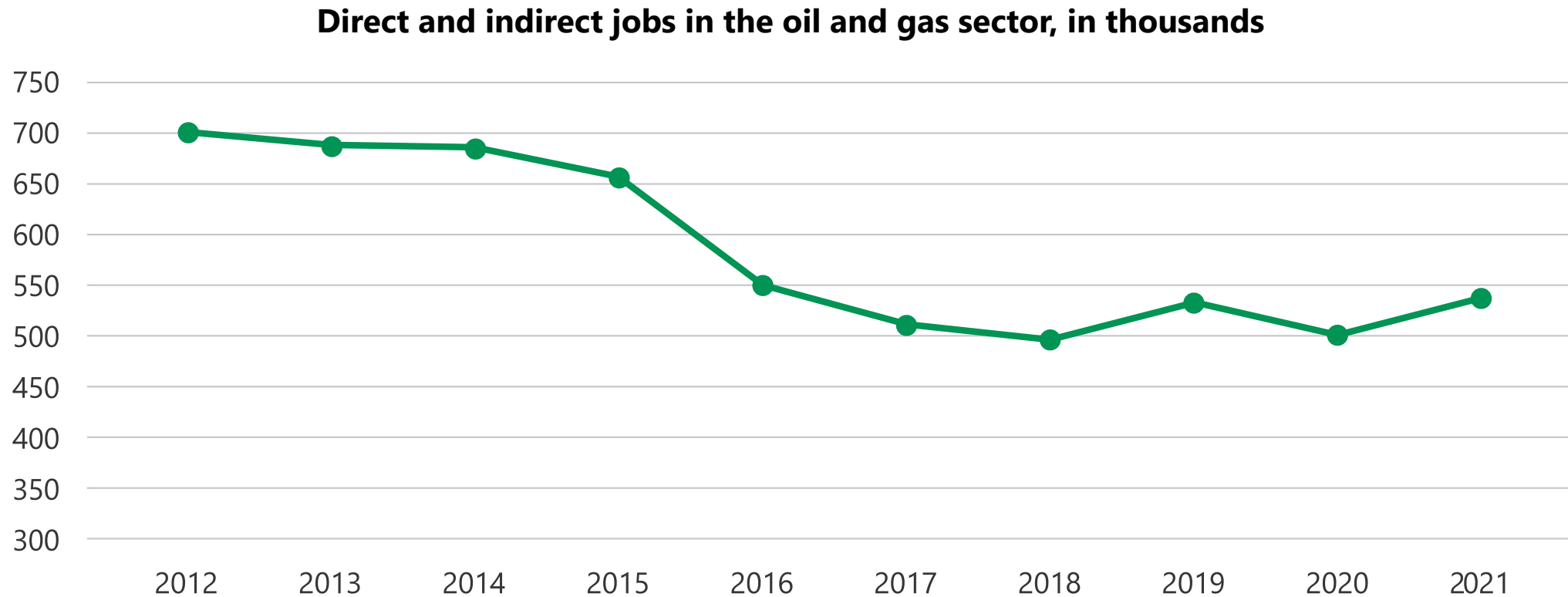


Source: ABESPetro survey with its member companies

Among several key sector indicators, three stand out for their socio-economic relevance

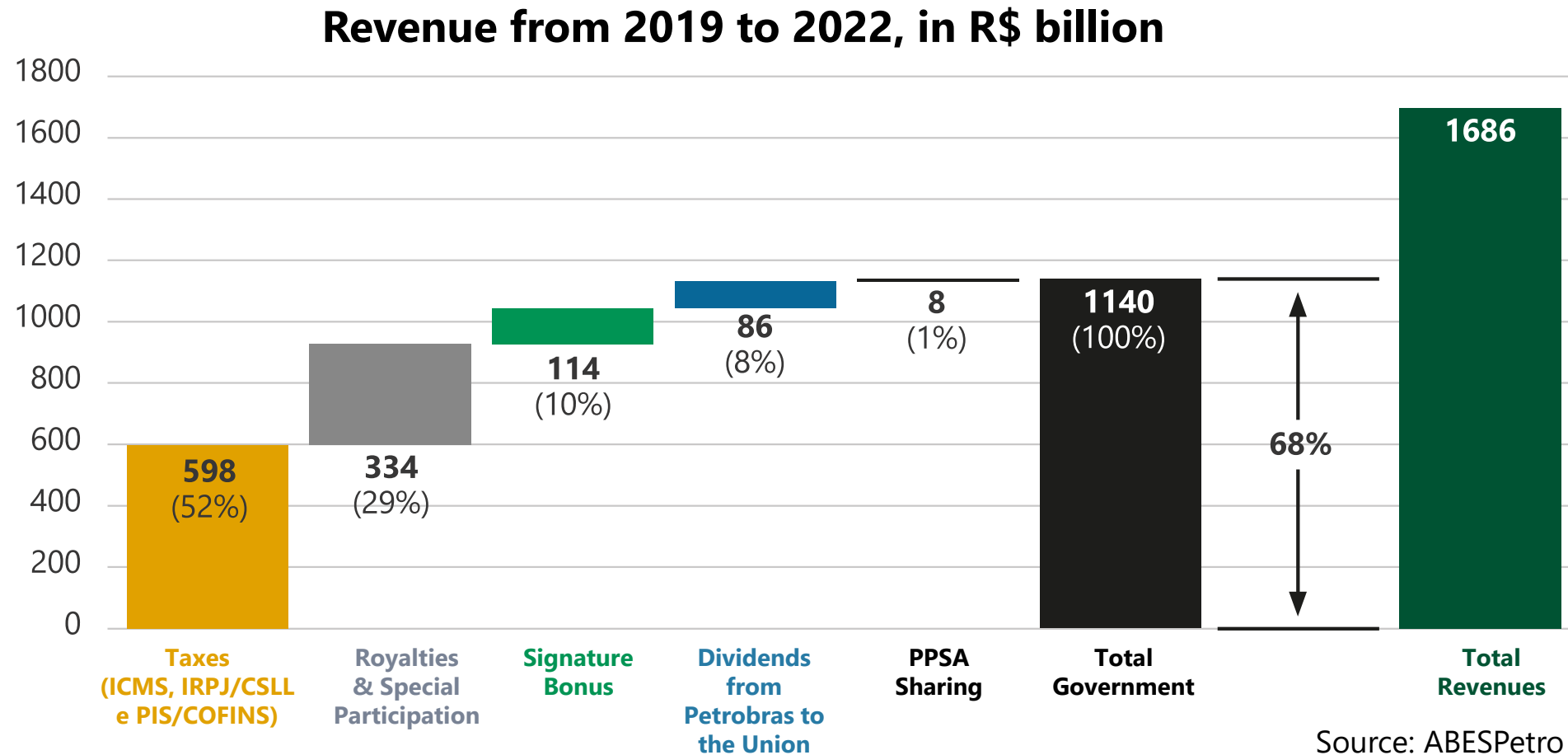
- **Employment**
- **Revenue**
- **R&D: Resources and Allocation**

The number of direct and indirect jobs indicates the impact of the crises that the sector has faced



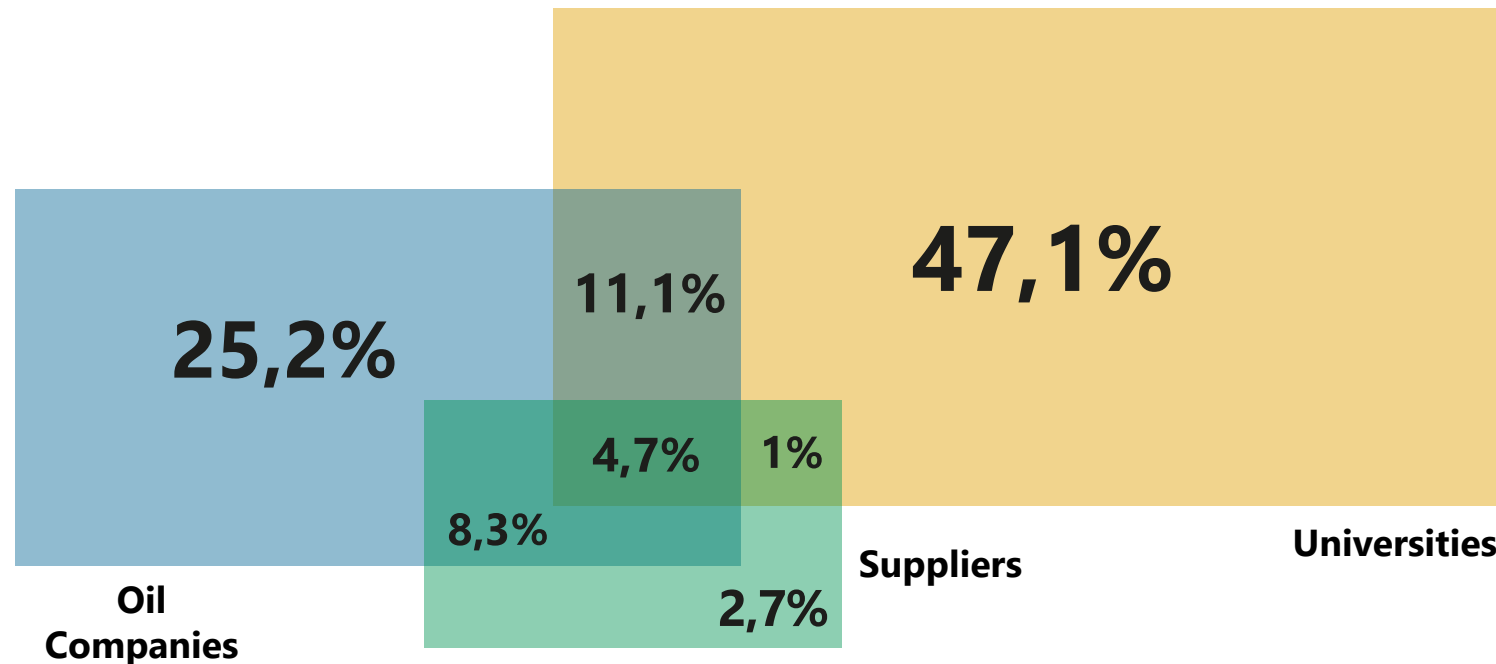
Source: ABESPetro

Taxes and royalties indicate that activity is the most significant factor for the total revenue collected



R&D resources are not concentrated in the interaction among different actors

Percentage of participation in R&D projects executed between 2017 and 2022, corresponding to a total investment of R\$14.6 billion



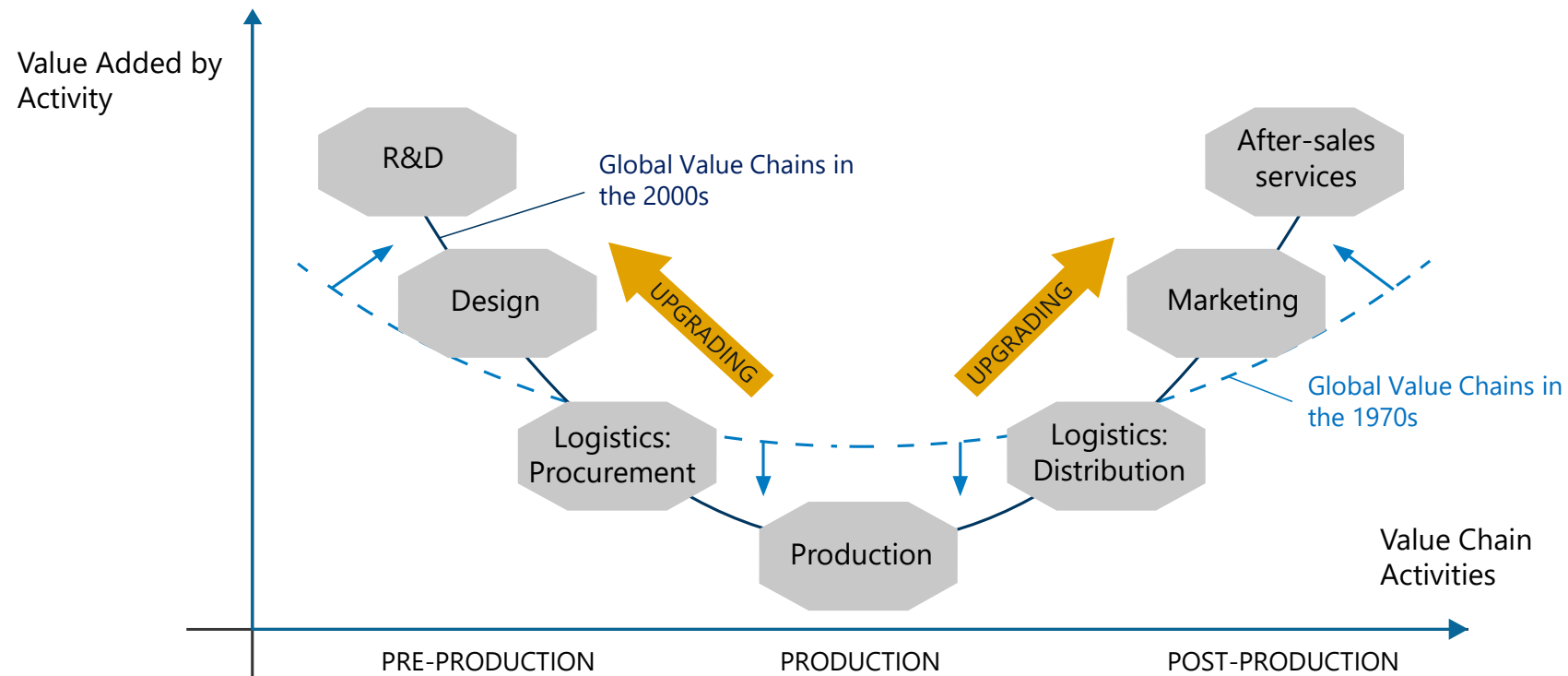
Source: ABESPetro

R&D policy in Brazil should foster greater interaction among oil companies, suppliers, and universities

- In countries with advanced innovation systems, a key element is the interaction among various institutions (Gonçalves, 2018). However, the **interaction between oil companies, universities and suppliers receives only 4.7% of R&D resources.**
- Innovations in the oil sector mainly occur through the interaction between oil companies and their major suppliers (Perrons, 2014). **However, the interaction between oil companies and suppliers receives only 8.3% of the total R&D resources.**

Brazilian suppliers need to upgrade their position in Global Value Chains (GVCs) to ensure stability

Smiling curve and upgrading in Global Value Chains



Source: ABESPetro

The ABESPetro 2024 Report presents six proposals, divided into two axes: activity and industrial policy

Axis 1 - Activity

- 1.1 - Maintain Repetro
- 1.2 - Licenses for the Equatorial Margin
- 1.3 - Increase recovery factor

Axis 2 – Industrial Policy

- 2.1 - Enhance R&D rules
- 2.2 - Repetro-Export
- 2.3 - Use Local Content mechanisms to measure performance

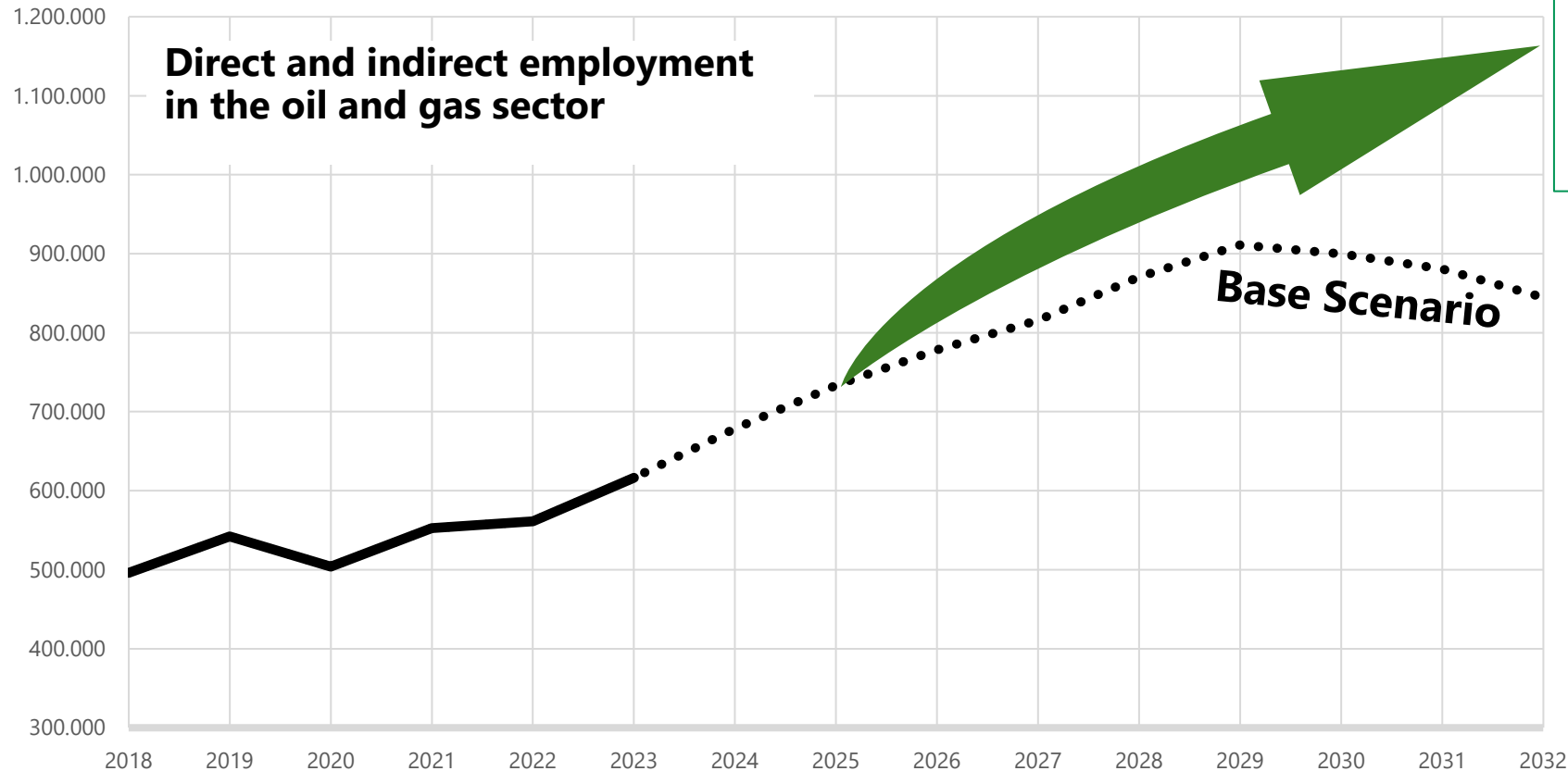
Axis 1 - Activity

1. Maintain and enhance Repetro to ensure the stability and growth of the industry;
2. Expedite licensing for new exploratory frontiers, with emphasis on the importance of exploring the Equatorial Margin;
3. To increase Brazil's Recovery Factor, create mechanisms that encourage larger oil companies to focus their efforts on large reserves and incentivize smaller oil companies to concentrate in mature fields;

Axis 2 – Industrial Policy

1. Increase flexibility for how oil companies allocate R&D resources, by allowing amendments to contracts with the Brazilian government regarding R&D rules, and eliminate the distinction regarding company size for the use of RD&I resources;
2. Create Repetro-Export, combining Repetro and Drawback mechanisms to stimulate the export of goods and services from the oil and gas supply chain;
3. Use Local Content measurement mechanisms to evaluate the sector's performance and enhance the instruments contributing to the increase in local industrial activity;

ABESPetro's proposals enhance job creation in the sector



ABESPetro's proposals contribute to the development of the oil and gas supply chain

Source: ABESPetro

**Download the complete ABESPetro 2024
Report from:**
www.abespetro.org.br

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