

Pa. gas drilling, regulation interests Brazil

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From the shale underlying Western Pennsylvania to the deep-sea oil off the coast of Brazil, emerging energy sources have policymakers and entrepreneurs from both hemispheres talking business.

The bulk of Brazil's energy comes from [hydropower](#), though wind, biomass and other sources supplement. But [oil fields](#) off the coast here—and shale formations in the country's south—have Brazilian companies keen on drilling, and Pennsylvania's experiences exploring and extracting natural gas from the [Marcellus Shale](#) have been a central point of discussion since a trade delegation began meetings in Sao Paulo this week.

"They have a very similar balance of energy portfolio," Gov. Tom Corbett said in an interview. "They're looking at us as to how can they invest in us. We're looking at our people that are coming down, smaller companies coming down, how can they invest here?"

"It really is kind of a get-to-know-you, but I think you will see over the course of—not maybe a year or two, but maybe three or four—a real development of a relationship that businesses, financial investment, will grow."

On a one-day visit here Wednesday, Corbett met with Sergio Cabral, governor of Rio de Janeiro state, in his office at the Palacio Guanabara, the seat of state government. In addition to discussing conditions for business and systems of education in their states, Corbett said, the governors signed an agreement to collaborate, particularly on issues

related to oil and natural gas.

"We can pick up the phone, call over there and get cooperation down here. They can do the same thing," he said. "He's very interested in the shale gas because they do have shale gas."

Corbett said he discussed a similar agreement during an earlier meeting with the vice governor of Sao Paulo.

"Both regions, Brazil and Pennsylvania, are going through a significant revolution in the energy arena, Pennsylvania because of the shale gas, Brazil because of the 'pre-salt' and eventually some shale gas as well," said Fernando Musa, CEO of Braskem America, in an interview at the company's headquarters in Sao Paulo. "Pre-salt" is the term for an oil reserve located far beneath the ocean's surface, beneath a layer of salt. Like the natural gas trapped in shale deep under the earth's surface, it presents challenges for drillers seeking to extract it.

"You have to drill through a salt layer, which is a very difficult drilling situation, according to the experts," Musa said.

Braskem America has five U.S. plants, a research and development center in Pittsburgh and last year acquired a portion of the Sunoco refinery at Marcus Hook, outside of Philadelphia.

"The two regions are going through similar challenges," he said, because both have significant reserves that are difficult to extract. And there are challenges in developing infrastructure, as well, "because what do you do with it when you get it out of the ground, how do you connect supply with demand?"

Musa said that industries in Pennsylvania and Brazil must make significant investment to get to the point of making a profit. The

technology and business models are similar, "so I think there's a good opportunity to exchange ideas, to replicate business models and it will create an opportunity for Pennsylvania-based companies to come to Brazil with the technology angle and leverage their technology here. And it will create an opportunity for Brazilian companies that need more energy and want to invest in a large market like the U.S., and it's probably a very good place to start, Pennsylvania."

The complexity of the Brazilian tax system has been a major topic of discussion as Pennsylvania business owners explore export opportunities here, and Corbett said the Rio de Janeiro governor was interested in the decision by Pennsylvania to assess an impact fee on drillers. He plans to send Cabral a copy of Act 13, the 2012 Pennsylvania gas-drilling law that created a per-well annual fee, changed scores of regulations and outlined which parts of the industry can be regulated.

Brazil has yet to pursue serious production of natural gas, but oil and gas company executives meeting with the Pennsylvania delegation here expressed interest in learning about how the U.S. state developed regulations for the industry.

"We are all aware of the shale gas revolution in the United States since the start of this century," said Carlos Mariani, vice president of the Federation of Industries of the State of [Rio de Janeiro](#). He added that the experiences of developing [shale gas](#) in the United States will be the subject of an industry event later this year.

While interest in shale could create opportunities for U.S. businesses here, it also helps make Pennsylvania a potentially attractive investment site as Brazilian companies look overseas.

"Three American icons—Anheuser-Busch, Burger King, Heinz—are at least partially in Brazilian hands, something that was unthinkable a few

years ago," said Marcello Hallake, a partner in the Sao Paulo office of the Jones Day law firm. "If you consider these things, clearly there are opportunities for Brazilian companies in Pennsylvania, not only because of the shale moment but also because of what Pennsylvania represents in terms of being at the heart of the American industrial world."

David Peebles, a representative of the Brazilian group Odebrecht, said the company is very interested in shale and the demands created by its production. Odebrecht does business in 20 countries and owns Braskem.

"We think the area of Pittsburgh, Canonsburg, the whole western part of Pennsylvania shows a lot of potential for an industrial renaissance, and also the demand for infrastructure," Peebles said.

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