

# Rice University

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## News Release

### **BRAZIL NEEDS TO RESTRUCTURE ENERGY SECTOR, STUDY SAYS**

Rice University's Baker Institute makes recommendations for implementing reforms in Latin America's largest nation

HOUSTON – March 1, 2004 – Although Brazil's energy reforms during the 1990s transformed the major oil importer into a nation with the potential to become a net exporter, a study by Rice University's Baker Institute for Public Policy warns that Brazil needs further restructuring of its energy sector to meet the nation's domestic need for oil.

Brazil's demand for oil could rise between 1 and 4 percent a year between now and 2015, according to the Baker Institute analysis. Consequently, much of the country's 1 million-barrel-a-day increase in production will simply offset domestic needs.

“Without more restructuring of its energy sector, Brazil might have difficulty ensuring that sufficient investment can be made to continue to meet the rising requirement for fuel and electricity,” said Amy Jaffe, energy fellow at the Baker Institute. “Our study notes that how Brazil meets its growing energy requirements will have direct bearing on the development of energy trade flows in the Western Hemisphere.”

Brazil, the largest country in Latin America, is the 10<sup>th</sup> largest energy consumer worldwide. In South America, Brazil is the largest energy consumer; in the Western Hemisphere, it is the third largest, ranking behind the United States and Canada.

The Baker Institute study, available online at <http://bakerinstitute.org>, comprises five academic research papers and two economic analysis presentations, including a comparison of best international privatization practices in the oil industry and peer comparisons of the performance of Petrobras, the company created by the Brazilian government in 1953 to run the oil industry.

“Brazil can afford to privatize Petrobras and liberalize the energy sector to guarantee the low-cost provision of fuels in future energy crises,” Jaffe said. “But to implement these reforms successfully, Brazil needs to create a decentralized fiscal system that does not require a state oil and gas company as a macro-economic policy tool, and it needs to strengthen the independent regulatory authority of the state to protect the interests of Brazilian consumers.”

The study concluded that Brazil needs to do the following:

- address the future status of Petrobras, a “giant state oil concern”

- improve the climate for competitive markets in natural gas and power by limiting Petrobras' role in those markets
- work toward a fully competitive regional gas market with broad participation and ample liquidity, with gas prices determined by the fundamental economic principles of supply and demand
- link power and natural gas prices more explicitly by contract and eliminate price indices that hold power and gas prices in different currencies
- enhance the budget of regulatory agencies to ensure they are adequately staffed and not subject to interference from other bodies of government
- improve third-party access to natural gas transmission infrastructure and information

The BP Foundation was a sponsor of the study.

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