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The Role of Brazil as an LNG Hub for South America

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Natural gas continues to gain momentum in South America as these countries seek greater flexibility and guarantee of supply in order to increase the energy mix. Even though some of these countries hold significant potential for natural gas exploration and development, including Argentina and Brazil, many still require liquefied natural gas to supplement their energy needs in the medium to long term.

Rising Potential for LNG Imports

Latin America has been under close scrutiny by the LNG industry of late. With imports rising in Argentina, Brazil and Chile there is recognition of the potential for Latin America to become a key market. Although the region only accounts for approximately 5% (five percent) of global LNG imports, there is speculation that Latin America will experience rapid rates of growth and a significant increase in imports over the next few years.

Recent reports have suggested that Latin American LNG terminals may stand to benefit from increased licensing of U.S. export terminals that is expected throughout 2014 and 2015. The opening of the US natural gas market, which benefits from low prices as a result of the development of shale resources and corresponding increases in exports, could reduce prices for existing and developing LNG terminals across Latin America.

South America as a Net Importer of LNG

YPF SA is currently South America's largest buyer of LNG. While Argentina boasts enough gas reserves to become self-sufficient, the development of such reserves lacks clarity and the demand for LNG looks set to continue for the foreseeable future.

Petroleo Brasileiro SA (Petrobras) is the second largest buyer of LNG in South America and is Brazil's only importer of LNG. Petrobras acquires LNG on the spot market during the year based on market demand. According to company earnings reports published on February 25, 2014, LNG accounted for 14.5% (fourteen decimal five percent) of Petrobras's total gas supplies last year, up from 8.4 (eight decimal four percent) the previous year. The company imported 64 shipments of LNG in 2013, as compared with 39 cargoes in 2012. The three LNG import terminals take Brazil's regasification capacity to 41 MMcm/d.

Brazil first began importing LNG in 2009, the year that two FSRUs entered production, both of them converted LNG carriers supplied by Golar LNG. The Golar Spirit has regasification capacity of 7 MMcm/d (around 2.5 Bcm/year) and is located at Pecém, in the state of Ceará. The Golar Winter has regasification capacity of 14 MMcm/d (around 5.1 Bcm/year) and was initially located at Guanabara Bay, in the state of Rio de Janeiro. It has now been deployed to a third LNG import terminal located at Baía de Todos os Santos, Salvador, in the state of Bahia, which started up in January 2014. A further FSRU, referred to by Petrobras as VT3 and to be supplied by Excelerate Energy, is due to enter service later this year and will have regasification capacity of 20 MMcm/d. In the meantime, an existing Excelerate vessel, the 20 MMcm/d Exquisite, is being used at Guanabara Bay.

Brazil has been experiencing a drought during the past few months thus driving the need for increased LNG imports in order to compensate for shortfalls in hydroelectric power output. It also is building up fuel reserves in advance of the World Cup 2014 in order to avoid power cuts. This has resulted in LNG available for sale on the spot market being purchased by Brazil rather than being shipped to Asia.

Further north, Mexico has recently been increasing LNG imports as it experiences rising demand, lower domestic rates of production and pipeline bottlenecks for the supply of gas from the US. The need to purchase spot cargoes has resulted in costly imports although it is anticipated that Mexico will seek to reduce its costs as major pipeline expansion works will allow more US gas into the country towards the end of 2014.

Chile too began importing in 2010. GNL Mejillones, the operator of the LNG terminal in northern Chile, introduced a new business model last year allowing companies to sign their own LNG supply contracts and use the Mejillones facility to regasify imports in exchange for a fee and also established a new short-term access regime allowing LNG importers to meet fluctuating natural gas needs of power generators and industrial consumers. It remains to be seen whether market demand will encourage talks with potential customers to expand its regasification terminal capacity from 5.5 MMcm/d to 8.25 MMcm/d, a project which was announced two years ago.

In Uruguay, GDF Suez has recently commenced development of the GNL del Plata LNG regasification terminal located in the Punta Sayago area, close to Montevideo. It is anticipated to start-up in 2015 and has been identified as a priority by the Government with the development of LNG regasification capacity forming part of Uruguay's Energy Policy 2005-2030. GNL del Plata may seek to position itself as an exporter of gas, particularly to Argentina, since the regasification capacity will more than cover Uruguay's demand - the terminal will have a storage capacity of 263,000 m³ and regasification capacity of 10 MMcm/d.

The Bottom Line

Although rich in oil and gas reserves, the slow pace of energy market reform in South America has seen production levels decrease while demand for power generation has increased, creating an energy gap met by foreign imports. Additional LNG imports by Argentina and Brazil have resulted in higher prices paid in the spot market by Asian users such as Japan and South Korea, the world's largest LNG importers, demonstrating how gas markets are truly becoming more global. Even certain countries in the Middle East are currently looking to LNG imports to meet rising demand for power generation, so the prospect of broader global demand for gas remains strong. As new supplies in the US and elsewhere come on-line, buyers in South America will be seeking new deals on LNG and Brazil will need to continue to re-evaluate its role in the continually evolving global marketplace.

The topics in this article will be discussed in detail at [CWC's Rio Gas & Power Forum](#) from 8 - 11 April 2014.

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