

Brazil Round 1

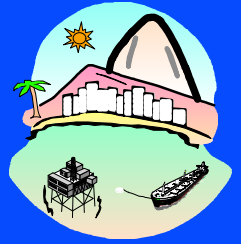


Price Deregulation Policy

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History of Price Regulation



- Before August 1998, the prices for petroleum products and natural gas were regulated at the refinery level, based on crude oil prices set by the Ministry of Finance and Ministry of Mines and Energy
- Since August 1998, these prices have been set based on prices for petroleum products in U.S. Gulf



Transition Period



- **Art. 69 of the Petroleum Law provides that, during a transition period from August 1997 to August 2000, prices charged by refineries and processing units will be jointly regulated by the Ministry of Finance and the Ministry of Mines and Energy**
- **The ANP expects full deregulation of all oil sector prices by August 2000**



Crude Oil and Petroleum Products



- Crude oil: prices deregulated effective August 1998 by Interministerial Portaria 03/98 (jointly issued by the Ministry of Finance and Ministry of Mines and Energy)
- Petroleum Products:
 - Prices set monthly based on U.S. Gulf prices in U.S. dollars, converted into *reais* using average exchange rate for preceding month



Petroleum Products (*Continued*)



- **Gasoline and diesel: PPE (*Parcela de Preço Específica*) - variable margin included in price**
 - Difference between (i) regulated prices ex refinery set by the Ministry of Finance and Ministry of Mines and Energy and (ii) actual refinery price plus taxes
 - Added to refinery prices and paid to the Federal Government
 - Used to pay alcohol and freight subsidies, as well as to cushion volatility in consumer prices
- **Jet fuel: deregulated effective August 1998; jet fuel prices for some airports still regulated**
- **LPG: deregulated in the South and Southeast regions as of December 1998**

Petroleum Products (*Continued*)



- **Deregulated**
 - Gasoline retail prices and distribution and resale margins
 - Diesel and LPG distribution and resale margins
- **Still regulated**
 - Fuel oil prices and distribution margins



Natural Gas



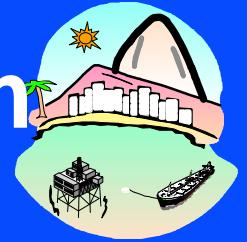
- Domestic production: price to distributors is set equal to 75% of the retail price for 1A fuel oil set by the Ministry of Finance and the Ministry of Mines and Energy (Portaria 24/1994)
 - Imports subject to a different formula

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Exports of Petroleum, Petroleum Products and Natural Gas



- Exports of oil, petroleum products and natural gas permitted under Art. 60 of Petroleum Law
 - **Upon authorization by ANP in accordance with directives of CNPE (*Conselho Nacional de Política Energética - National Counsel for Energy Policy*)**
 - Composition of CNPE is known, but has not yet met or taken any action
 - **Exports of crude oil permitted, subject to registration and reporting obligations (Presidential Decree 2.926/99 and Portaria 07/99)**
 - **Petroleum products and natural gas: no regulation yet issued**
 - Petrobras authorized to export
 - When issued, regulation expected to be similar to that for crude oil and extended to all companies