



Tuesday, June 16 2020

To

Superintendent of Technical Data

Claudio Jorge Souza

National Agency of Petroleum, Natural Gas and Biofuels - ANP

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Sent eletronically to: cjsouza@anp.gov.br

Ref.: Request for extension of non-exclusive seismic data confidentiality terms

Mr. Director,

The International Association of Geophysical Companies - IAGC, which brings together geophysical data acquisition companies ("EADs"), would like to reinforce the request for extension of non-exclusive seismic data confidentiality term, presented to this Agency on April 6 of this year.

The IAGC sympathizes with all those impacted by the global pandemic caused by Covid-19. This unprecedented event has resulted in a significant cost to human health and has impacted the most diverse sectors of the economy and, in particular, the oil and gas sector and, even more particularly, the seismic sector. Worldwide, in relation to the O&G industry, added to the pandemic, we've had dramatic reductions in the price of oil, exacerbated in part by geopolitical tensions between the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC nations. In addition, deep falls in West Texas and Brent futures have caused even greater market uncertainty.

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The governments of several countries have taken measures to safeguard the public interest and support the different sectors of the economy in face to the economic and social crisis caused by the pandemic.

In the case of Brazil, given the unprecedented drop in oil prices and consequent market instability, we understand the decision taken by this Agency to suspend the Bidding Rounds scheduled for 2020 (with the exception of the Permanent Offer), as well as the concession granted to the Concessionaires with the publication of ANP Resolution no. 815/2020, which allows the Companies to extend the E&P Contract Exploration Phase for nine months.

We understand that, with the instability of the price of oil and the lack of prediction of when a minimum level of stability will be reached, this Agency is not in a position to reschedule the calendar of Rounds for the year 2020. Regarding the extension of the Exploration Phase, as announced by the ANP, "This is a relevant emergency measure in the current scenario to minimize the impacts on the oil and natural gas exploration sector". However, we cannot ignore the fact that such measures severely affect EADs.

Geophysical activities are also an integral part of the exploration sector and, similarly, have been severely impacted by the current scenario, and need, in the same way as the Concessionaires, support from this Agency to have relieved the impacts now felt and those still to come. As a matter of fact, it is worth noting that, worldwide, the seismic industry has been the most heavily impacted by the current scenario, as can be appreciated in articles published in the international press¹.

In the case of our members, the confidentiality term is one of the main tools for promoting business. When geophysical companies decide on their investments, the term in which the data will remain confidential, or in other words, marketable, is a key factor.

In our country, the term of 10 years of confidentiality for multient data was carefully defined by this Agency, as it is considered appropriate to give companies the opportunity to have the return on their investments, i.e., to "sell" or, more accurately, license their data.

¹ <https://www.oedigital.com/news/477763-low-oil-prices-to-eviscerate-seismic-players-revenues>

In the current market scenario, as explained above, we observe a lack of business opportunities for the EADs. In this context, E&P companies have chosen or often found themselves compelled to postpone their investments, including the "purchase" of seismic data.

Notwithstanding this fact, seismic companies, due to the multiclient business model, have already, are or will acquire data taking into account the areas of the Rounds previously announced. In this context, the respective terms of confidentiality, regardless of the impossibility of doing business, have or will have the confidentiality terms running during this term when the market is extremely slow. In these circumstances, these data will have their "life span" shortened in practice, since their value will be amortized, during a term in which business opportunities are absolutely scarce or practically null.

Objectively, we can say that, considering the 10-year term of confidentiality, seismic data loses 10% of its value each year. For parameter purposes, we would like to mention in general terms the value of investments done by the seismic companies, considering one month of seismic acquisition according to different types of technologies:

- OBN, base survey, between 15 and 25M USD;
- WAZ, with four seismic vessels, 20M USD;
- conventional 3D, between 6 and 8M USD;
- 2D, 3M USD.

It seems to be of common sense observing that this situation in which the EADs find themselves is of imbalance, materializing as a disincentive message from the Brazilian Government to the sector. Since, if no measures are taken to safeguard the seismic data life span, such relevant investments are running the risk of not having the real possibility of being recovered.

In order to have a parameter regarding the competition and, therefore, the attractiveness of Brazil considering the confidentiality term variable, we present below how it is established in some other countries. Examining it, we see that Brazil's confidentiality term, compared to some other countries, appears to be the least attractive and, therefore, it is essential that, at least, it be preserved - and only this Agency has the competence to do so.

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Country	Term (processed data)	Term (field data)
USA	25 years	50 years
Norway	10 years	Don't become public
Australia	15 years	15 years
Indonesia	15 years	15 years
UK	10 years	15 years

THE RELEVANCE OF THE MULTICLIENT SEISMIC DATA

In order to reinforce the degree of relevance of this request, we would like to emphasize the importance for the country of non-exclusive seismic data.

As we know, non-exclusive seismic data acquisition activity has been essential in the oil and gas industry, making investments possible by reducing exploratory risks. Non-exclusive data brings economy to the sector, as it allows for the dilution of costs and the profit margin of surveys among the various clients. Since the opening of the market until mid-2017, seismic companies have collaborated with approximately US\$ 2.6 billion in direct investments in Brazil.

It is important to point out that only non-exclusive data acquisitions have the characteristics of covering vast areas, using high technology, in a uniform manner, allowing the evaluation of large areas in a continuous and detailed manner, which does not occur with data collected in exclusive campaigns, assigned to concession areas or to portions of them. These vast acquisitions foster the oil and gas industry, since they attract the interest of the Concessionaires in the areas that will be offered by the ANP, in addition to enabling the formulation of policies through knowledge of the Sedimentary Basins. In this way, they also constitute an essential contribution of knowledge, which provides subsidies for the elaboration of the strategic component of this Agency.

Due to non-exclusive data, most of the major Brazilian discoveries in deep and ultra-deep waters were possible. And, possibly, it will be through them that other great discoveries will be made, and their useful lives will be optimized.

Furthermore, through the acquisition of non-exclusive data, the Concessionaire will have access to high quality data, guaranteed by constant reprocessing, at a lower cost than by obtaining exclusive data. Such cost reduction may even directly impact the declaration of commerciality of smaller deposits that would otherwise not be economically viable.

THE PRECEDENT FOR GRANTING THE EXTENSION OF THE CONFIDENTIALITY TERM

It is worth remembering that the present request - extension of the confidentiality term - was previously requested by the IACG and accepted by this Agency. At the time, the ANP granted the extension through Article 5, Paragraph 1 of Resolution No. 11/2011 itself, establishing that "Seismic geophysical data and non-seismic, non-exclusive geophysical data, still in a confidentiality term, acquired during the term of ANP Decree No. 188/1998, will have the confidentiality term increased by 5 years. "

This extension was given as a consequence of the addition of two hypotheses which allowed the extension of the Exploratory Phases of the blue blocks. Regarding such extension, granted to Petrobras, the IAGC highlighted in a letter at the time, the following: "the simple extension of the exploratory phase of the "Blue Blocks" eliminated a moment of commercialization of non-exclusive data, causing the economic rupture of projects already carried out or that were in progress, (...*omissis*). "

In 2020, we are witnessing exactly the same situation, resulting from a similar measure taken by the ANP, with the extension of the Exploratory Phases, which was severely aggravated by the suspension of the Rounds, eliminating, in an even more forceful manner, the commercialization of non-exclusive data in 2020, causing the economic rupture of projects that had already been carried out or were in progress, and also those planned for the year.

CONCLUSION

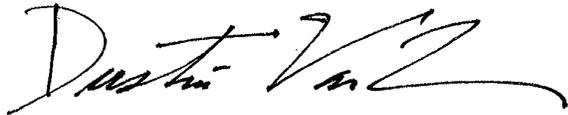
Considering all the above, on behalf of our members we request this Agency to extend the multiclient data confidentiality term proportionally to the term the Bid Rounds and Exploratory Phases will be postponed in addition to an 50% increase, as a minimum, on the respective period length. This request takes into consideration that (i) the new calendar for the Bid Rounds was not announced yet, (ii) the possibility of the exploratory phases to be suspended beyond the previously announced 9 months; (iii) that our members have been investing prior to the crises and kept investing during the pandemic with consequent capex requirements now without any expectation of return. It is part of our industry anticipating market moves towards Bid Rounds and due to the uncertain future post pandemic and oil prices recovery, in practical terms our member will likely need extra time to be able to work on business opportunities. The budget cuts and interrupted cycles will impact the marketability of our members investments in Brazil for years to come and we rely on this measure

to make it possible for the seismic companies to have the return of their investments in the country. Our objective is nothing more than to safeguard them from relevant losses, in the face of the unprecedented crisis.

We would be pleased to answer any questions or provide any clarification you may have. If you wish, please contact me (Dustin.vanliew@iagc.org) or Andreia Leão Owens (andreia.l.owens@iagc.org; +1 832-571-4892), our representative for Latin and South America.

Thank you for your attention.

Sincerely,

A handwritten signature in black ink, appearing to read "Dustin VanLiew". The signature is fluid and cursive, with a long horizontal stroke at the end.

Vice-President, Regulatory & Governmental Affairs

IAGC