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Petrobras shelves Santos Basin FLNG plans

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Petrobras has postponed an option to monetise Brazil's Santos Basin gas through floating LNG (FLNG) beyond 2016, according to the head of the state oil and gas company. The offshore pre-salt gas instead will be sent by pipeline to an onshore refinery.

"We think that we can transport the gas by pipeline and using the gas pipelines that are already projected for the Santos basin," said Petrobras CEO José Sergio Gabrielli in a public explanation of the company's five-year plan on 26 July.

The front-end engineering and design (FEED) for an offshore liquefaction project headed by Petrobras (51.1%) in a partnership with BG Group, Repsol and Galp (each with a 16.3% stake) had been finished and was pitted against a pipeline alternative.

Two pipelines travelling from the Santos Basin to onshore processing and treatment plants already have been scheduled into Petrobras's transportation plans. A third Santos pipeline is slated to travel to the 165,000bbl/day Complexo Petroquimico do Rio de Janiero (Comperj) refinery under construction in the country's most-populated city, according to Gabrielli.

The allure of shipping to the refinery versus selling LNG on the open market is the associated ethane in the pre-salt gas that could be used in production at Comperj, Petrobras's top executive said. The facility is slated to have 1.1m tonnes/year of ethylene production.

Petrobras has said in the past that it would pursue the use of pre-salt natural gas as a feedstock in chemical production at the plant that is scheduled for a 2016 start-up, a similar date for monetising the third phase of the Santos Basin reserves. The state-run company said in June that natural gas demand at Comperj would be 15 million cubic metres/day.

Brazilian FLNG down but not out

The postponement of FLNG in the Santos Basin does not mean an end to that commercial strategy, according to Claudio Steuer, a principal at Synergy consultancy in the UK.

"As the FLNG option matures and becomes more competitive, there should be good opportunities for FLNG in future development phases of the pre-salt assets," Steuer said. "Pre-salt developments are key to Petrobras strategy and future. A reliable technical and market solution are needed to produce the oil. Whilst LNG markets are robust, the same can not be said about FLNG at this time."

In the meantime, Petrobras's partner in floating liquefaction, BG Group, said the FLNG choice was still on the table for Brazil.

"On FLNG, we are at the moment in a process of debating and discussing which of these options are going to be adopted and in what sequence they are going to be adopted, and no decisions as yet have been taken on that," BG's top executive Frank Chapman said after the Petrobras announcement.

The announcement from Petrobras is a blow to the progress of FLNG after Shell's market-leading plans to proceed with the Australian Prelude project as well as a hand in developing offshore production in Indonesia.

The FLNG postponement in Brazil is a reflection of the geographical impediments of being positioned in the Atlantic basin while demand grows in the Pacific basin, Steuer said.

"LNG market demand has shifted to Asia, and a Santos [Basin] FLNG option would face higher unit technical and logistic costs than most Middle East and Far East sellers," he said.