

Promoting E&P in Peru's mature and frontier basins

The Peruvian Government's goal of making the country a net exporter of oil and gas by 2014 will require fresh investment in both the Amazon and offshore regions



Created in 1993 by the Organic Hydrocarbon Law (No. 26221), Perupetro S.A. is the State enterprise of Peru's energy and mining sector with primary responsibility for the promotion of investment in hydrocarbons exploration and production (E&P), as well as negotiating, underwriting and monitoring License Contracts.

In its chapter on Environment and Natural Resources, the Political Constitution of Peru states that both renewable and non-renewable natural resources are the patrimony of the State, which is responsible for their sustainable use as well as the conservation of biodiversity and protected habitats and the development of the Amazon region.

Peru has 18 sedimentary basins with hydrocarbon production potential. To date, however, E&P activities take place in only six of these, while oil and gas production is concentrated in just three of them. The remaining basins contain important unexplored and under-explored areas, as evidenced by the low number of exploratory wells drilled thus far.

However, the US\$ 2,122.32 million of private investment in exploration activities and US\$ 3,917.81 million in production activities invested in Peru between 2006 and 2011 should serve as a wake-up call to investors that the Peruvian market is ready for large-scale private investment in its hydrocarbons industry.

The challenge of searching for new reserves is of paramount importance in order to ensure significant increases in the country's oil and gas production levels. In order to achieve this, Perupetro has developed a combined policy and incentives programme intended to increase the country's attractiveness to oil and gas companies.

One of Perupetro's main targets is to reach a daily level of oil and gas production that will enable the country to become a net oil and gas exporter. In order to reach this threshold, fresh investment is required in areas with a proven track record of exploration success.

Peru benefits from a policy which combines a competitive fiscal regime, a convenient royalty scheme and a first-order contract model aimed at reducing risk and uncertainty, as well as proximity to markets, a developed infrastructure to support E&P activities and the potential for important commercial discoveries both onshore and offshore.

Once signed, contracts assign companies exclusive exploration and production rights and ownership of all hydrocarbons produced in their block, subject to royalty payment. The size of the royalty will be determined by

future production levels after declaration of commerciality. The contract duration is currently set at seven years for the initial exploration phase, with an additional 23 years for the exploitation phase in the case of oil production and 33 years in the case of gas production. The exploration phase may be extended to ten years on request.

The Marañon, Ucayali and Madre de Dios basins in the Peruvian Amazon and the free areas in the offshore and coastal regions have attracted the interest of exploration companies for many years. To date, the most prolific basins are Marañon and Ucayali in the jungle and Talara in the coastal region. However, despite a significant number of exploratory wells having been drilled in these basins, there remain important areas that are either unexplored or under-explored.

Peru's oil industry dates back to the early 1970s when a number of highly successful discoveries in the jungle region took place. Since that time, there have been no major discoveries with the notable exception of the Camisea natural gas fields, which were discovered in the 1980s.

In the offshore areas hydrocarbon exploration and production activities have been concentrated in shallow waters, at water depths of less than 100 metres. Even in the northern part of the country, where oil and gas have been produced for more than 50 years, exploration has gone to depths of no more than 120 metres.

Due to the application of Perupetro's new policy, investment in hydrocarbon exploration and exploitation has increased rapidly in recent years, and this is expected to rise still further in the near future, especially in the exploration and development of heavy oils in the northern jungle and the E&P activities for natural gas and LNG in Camisea and the surrounding areas.

As a result, due to the renewed activity in hydrocarbons exploration and exploitation since 2005, important discoveries have been made in both the Amazon basins and offshore region. Perupetro continues to organise campaigns to attract new investment and bolster the country's oil and gas reserves, with new blocks due to be offered in future rounds.

The company has great expectations for the forthcoming bid rounds, bolstered by the news that Peru has been ranked 76th in the world for oil and gas investment by the Fraser Institute. This represents a remarkable leap forward compared to its ranking of 85th place just a year ago. ■



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