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LATIN AMERICA ADVISOR | Energy

Featured Q&A *with the Energy Board of Advisors*

Q Last month, US Senator Frank Lautenberg urged President Bush to work through the World Trade Organization (WTO) to break up the Organization of Petroleum Exporting Countries (OPEC), arguing that price fixing and export quotas by OPEC—seven of whose members (including Venezuela) belong to the WTO—violate WTO rules. Do you see a future WTO action against OPEC? Is there a good case against OPEC? What are the potential consequences of such a case for global oil markets, and for Latin America specifically?

A Guest Comment: Tapen Sinha: "There are eleven members of OPEC—Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, UAE, Venezuela, and Saudi Arabia. Of them, Algeria, Iran, Iraq and Libya are not members of the WTO. The rest are. Among the OPEC members, Saudi Arabia produces about 30 percent of the total OPEC output of oil. Curiously, the output fluctuation of Saudi Arabian oil production almost exactly matches the fluctuations of oil import by the United States. Lautenberg's comment came because there has been a rise in oil prices over the past two years. Thus, he seems to think that it is the OPEC members colluding to raise oil prices in the world. Is there any evidence of that? If we examine real oil prices during 1970 and 2005, oil prices have not seen a peak anywhere near the peak of February 1981. If OPEC had that much influence on oil prices, surely it would have been able to maintain the level of prices. During the same period, falling oil prices saw a 50 percent reduction in per capita income in Venezuela. It would be nearly impossible to make a case against OPEC in the WTO. There is no smoking gun. Why have oil prices risen in the past few years? Weather has played a significant role: hurricanes have adversely affected supply, lower-than-expected temperatures have raised demand. Of course, in the background, there is the lurking possibili-

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PHOTO OF THE WEEK

Venezuelan President Hugo Chavez on Tuesday promised Bolivian President-elect Evo Morales that his government would provide fuel and other assistance to Bolivia. See related story on page 2.

Photo: ABN.

Inside This Issue

ENERGY SECTOR BRIEFS

Ecopetrol Finds Signs of Oil, Gas in Offshore Block

Colombian state-owned oil company **Ecopetrol** said Tuesday it had discovered signs of oil and gas deposits at the Tayrona offshore block near the Andean nation's northern Caribbean coast. Ecopetrol cited studies done with Brazil's state-run **Petrobras** and US oil giant **ExxonMobil**. The 4.6 million-hectare Tayrona block is Colombia's largest offshore exploration area.

Source: Reuters.

Official: Acapulco Dam Proposal Has Sufficient Approval

A controversial proposal to build a dam to provide drinking water and electricity in the Mexican resort area of Acapulco has sufficient approval after two more farm communities voted in favor of the project last week, a Guerrero state press official said. A total of 17 communities have now approved construction of the dam, the official said. The project has provoked violent opposition from residents unwilling to leave areas to be displaced by the dam and resulting basin. The $800 million, 900-megawatt dam on the Papagayo River, about 30 miles from Acapulco, is expected to take five years to complete.

Source: El Universal.

Flex-Fuel Cars Drive December Vehicle Sales in Brazil

Brazilian vehicle sales rose 16 percent in December from November to 183,600 units, a record for the month and led by sales of flex-fuel cars, which run on any mix of gasoline or ethanol. Sales of flex-fuel cars totaled a record 120,000 units in December, up 15 percent from the previous month.

Source: Reuters.

Oil & Gas News

Venezuela Hails "Recovery" of Oil Fields from Private Hands

Venezuelan Oil and Energy Minister Rafael Ramirez on Sunday hailed the return of 32 privately operated oil fields to state control under government-mandated joint-venture contracts with state-owned oil company **PDVSA**, Reuters reported. Ramirez said the "recovery" of the fields was successful after a deadline for private companies to convert operating contracts into joint-venture agreements with PDVSA, under which the state firm plans to hold stakes of 60-70 percent, expired on Saturday with the end of 2005. Venezuela, the world's fifth-largest oil exporter, last year ordered 22 local and foreign firms holding 32 contracts to change them to joint ventures, saying that old operating contracts signed under previous administrations were unfair. On Friday, PDVSA said in a statement that Spain's **Repsol YPF** had signed a "transition agreement" to enter into a joint venture with PDVSA, the last company to do so. Repsol, which held a 75 percent stake in the Quiamare-La Ceiba oil field, signed the agreement after acquiring **Exxon Mobil**'s 25 percent stake in the field. Exxon was the only foreign company that did not sign a transition agreement for the new joint ventures, according to Reuters. Ramirez had warned that the government would take over any fields refusing to convert to the new ventures. Other companies that did agree to switch to the new joint venture arrangement included Italy's **Eni**, the US' **Chevron**, **BP**, **Royal Dutch Shell**, **China National Petroleum**, France's **Total**, and Brazil's state-owned **Petrobras**. The 32 oil fields have accounted for about 500,000 of Venezuela's declared production of 3.2 million barrels a day, according to Reuters.

Petrobras to Renegotiate Bolivia Contracts "From Scratch"

Brazilian state-owned oil company **Petrobras** will renegotiate its contracts in Bolivia when President-elect Evo Morales takes office on January 22, according to a local news report. Petrobras has invested more than a billion dollars in Bolivia in the past decade, but political turmoil over the past two years has stalled expansion plans. "There wasn't any chance to develop the project, so the proposal will be presented again, starting from scratch. In other words, negotiations will get underway all

Chavez Promises Fuel Assistance to Bolivia

Venezuelan President Hugo Chavez on Tuesday promised 150,000 barrels a month of diesel fuel to Bolivia as part of a larger assistance package to the Andean nation.

Chavez and Morales.
Photo: ABN.

During a visit to Caracas by Bolivian President-elect Evo Morales, a left-leaning socialist who will take office on January 22 as the Andean nation's first-ever indigenous president, Chavez said Venezuela would also share its petroleum expertise with Bolivia, and state oil firm **PDVSA** would open an office there.

Venezuela will support Bolivia "in every way we can, to cooperate in the development and stimulation in all areas of hydrocarbons," Chavez told reporters.

In return for the diesel fuel, Bolivia will provide Venezuela with an equal value in farm goods, Chavez said.

Venezuela will also provide $30 million in financing for social programs in Bolivia and support Morales' efforts to protect coca crops from US eradication campaigns.

Source: ABN, Reuters.

over again," Petrobras International Affairs Director Nestor Cervero told state-run Agencia Brasil news service. Cervero said that the new negotiations will relate to Petrobras' participation with Bolivian state firm **YPFB** and Petrobras subsidiaries, such as its refineries in Cochabamba and Santa Cruz de la Sierra, as well as a petrochemical complex that Petrobras plans to build in Bolivia, according to Agencia Brasil. Bolivia, which last year raised taxes on multinational oil and gas companies, could face a slew of international arbitration cases if it fails to renegotiate contracts with the companies [Editor's note: see related Q&A in the November 22, 2005 issue of the *Latin America Energy Advisor*]. Morales, who shortly after his election on December 18 said he would respect the existing ownership of international oil company assets in Bolivia, is now starting a ten-day international tour that includes stops in Brazil, as well as in Spain and France. France's **Total SA** and the Spanish-Argentine **Repsol YPF SA** are among foreign oil companies with big investments in Bolivia.

Pemex Taking Measures Against Costly Fuel Theft

Mexican state oil company **Pemex** said this week it found 124 illegal fuel taps in its pipeline network last year, in effect halting the theft of fuel that was worth 7 billion pesos ($US 660 million), according to a report in local daily *El Universal*. Most of the taps were for gasoline and diesel fuel. "The push to prevent the theft of fuel included targeting clandestine fuel taps and extraction from pipeline valves, contraband, stealing of product from refineries and storage, distribution, and supply terminals," Pemex said. In the past two years, Pemex filed 293 criminal complaints against individuals suspected of being behind 153 illegal taps in its 36,738-kilometer network, according to *El Universal*. In April, Pemex plans to start operations of new monitoring systems at 11 of its fuel storage and distribution terminals to reduce fuel theft, a TMCnet news report stated Tuesday. To date, 42 of Pemex's 77 storage and distribution terminals already have these remote monitoring systems, and Pemex plans to tender the installation of systems in its remaining 13 terminals this year, which are expected to start operations in 2007, Pemex said. With higher prices, fuel theft has been on the rise worldwide, from petty gas-pump thefts to allegations of large-scale swindles. Allegations over gas skimming were behind the recent diplomatic spat between Russia and Ukraine, when Russian officials accused Ukraine of stealing gas from its pipelines through their territory that was intended for Europe.

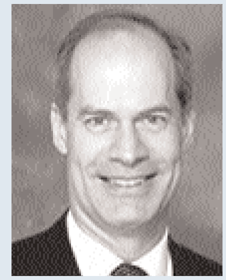
Metrogas Extends Deadline for Debt Swap by Two Weeks

Metrogas, Argentina's number-one natural gas distributor, said last Wednesday it was extending by two weeks until January 11 a deadline for bondholders to exchange $437 million in defaulted debt for new debt, Reuters reported. The company said the deadline was extended "because there exists a significant number of bondholders that have expressed interest in participating" in the exchange. It was the third time Metrogas has pushed back the deadline for the swap. Last month, the company said creditors holding about $325.4 million, or 74.5 percent, of its debt had already agreed to the swap. Metrogas ceased paying interest on its debt in March 2002 after the government devalued the peso currency amid a crippling economic crisis, devastating companies with dollar-denominated debt. Metrogas is 70 per-

Board Member Profile

The **Energy Advisor** *is pleased to announce that R. Kirk Sherr has joined its Board of Advisors. Subscribers can pose questions to the Board by contacting Robert Simpson at rsimpson@thedialogue.org.*

R. Kirk Sherr
Principal, The Scowcroft Group



R. Kirk Sherr

Kirk Sherr provides strategic advice and support to **The Scowcroft Group**'s clients in energy, mining, manufacturing, telecommunications, and other industries.

Since 1995, Sherr has held senior management and business development positions for international energy companies, including assignments to Brazil and Mexico. In Brazil, Sherr developed a $500 million integrated natural gas power plant and pipeline, and was a founder and president of the Brazilian Independent Power Association.

In Mexico, he was president of two natural gas distribution companies. He also has worked closely with US and multinational financial agencies, including OPIC, EXIM, the IDB, and the IFC, to secure financing for large infrastructure projects. Most recently, he developed a successful utility telecom and energy consulting business focused on Latin America.

From 1985 to 1995 he was a US foreign service officer, with assignments to the Philippines, El Salvador, Colombia, and Washington, DC. His work during this period focused on challenging regional commercial and economic policy issues, including bilateral debt, investment, and anti-narcotics initiatives.

Sherr is fluent in both Spanish and Portuguese. He holds an A.B. from Franklin and Marshall College and a J.D. from the University of Denver.

Based in Washington, The Scowcroft Group provides international business advisory services and is managed by Brent Scowcroft, former National Security Advisor to Presidents George H.W. Bush and Gerald Ford.

cent-controlled by **Gas Argentino**, which is in turn 54.67 percent controlled by Britain's **BG Group Plc.** Spain's **Repsol YPF** has a 45.33 percent stake in Gas Argentino.

Economic News

Argentina Repays IMF Debt, Declares Freedom from Lender's Influence

The government of Argentine President Nestor Kirchner on Tuesday paid off its $9.57 billion debt to the International Monetary Fund and proclaimed its freedom from the multilateral lender's influence in economic decision-making, the Associated Press reported. Economy Minister Felisa Miceli said the payment "allows Argentina to improve its economic, financial, and fiscal situation, and it also has high political and symbolic value as the president already declared last December 15 that Argentina would recover its autonomy in regard to its economic decisions." The IMF had been expected to press Argentina to take a number of economic measures, such as ending a four year-old freeze on utility tariffs and negotiating with holdouts from the government's multibillion dollar debt restructuring earlier this year, as a condition for a new loan. The government drew from its foreign reserves to make the payment, bringing reserves down to $18.5 billion, an amount Miceli said was a sufficient cushion to manage the country's finances. Some analysts say Argentina's decision to pay off its IMF debt may end up costing it more money by forcing it to look for other, more expensive forms of financing. Its December 15 announcement to prepay the debt came just days after Brazil said it would pay off its $15.5 billion debt to the multilateral lender. [Editor's note: look for a related Q&A in this Friday's issue of the daily *Latin America Advisor.*]

Forecasts for Latin American FDI in 2006
Select Countries

Editor's note: the table below was part of the Advisor*'s 2006 Annual Predictions Survey. For more survey results, please contact* Advisor *Editor Robert Simpson via email at rsimpson@thedialogue.org*

	Bear Stearns	CSFB	HSBC	WestLB	Royal Bank of Scotland	UBS	AVERAGE
Argentina	3.0	0.5	4.4	4.2	3.5	2.0	**2.9**
Brazil	-	15.5	12.1	15.0	15.0	16.0	**14.7**
Chile	-	5.0	4.6	8.0	4.5	4.3	**5.3**
Colombia	4.5	3.0	4.2	3.2	2.9	3.0	**3.5**
Ecuador	1.4	0.8	1.0	1.3	-	0.7	**1.0**
Mexico	20.0	15.0	10.9	17.4	14.0	13.5	**15.1**
Peru	-	1.6	2.2	2.3	-	1.8	**2.0**
Venezuela	1.5	1.3	1.4	1.5	-	1.1	**1.4**

Source: Latin America Advisor.

Signs of Monetary Easing in US Push Up Latin American Stock Markets

Latin American stocks jumped on Tuesday after the US Federal Reserve signaled that it was nearing the end of the current cycle of rate increases, Reuters reported. The stock markets in Argentina, Brazil, and Mexico all surged by about 3 percent after the release of the minutes from the US Federal Reserve's December meeting stated "the number of additional firming steps [in monetary policy] required probably would not be large." The stock markets in Latin America's three largest economies are all coming off strong gains in 2005. On Tuesday, stock markets in Chile and Peru also recorded gains, according to Reuters. Higher interest rates in the US typically attract investors away from emerging markets, while lower US rates tend to do the opposite.

Political News

Morales, Chavez Meet in Caracas, Vow "Anti-Imperialist" Alliance

Venezuelan President Hugo Chavez and Bolivian president-elect Evo Morales met on Tuesday and vowed to strengthen ties as part of a socialist alliance against the United States in the region. "We are joining this anti-neoliberal, anti-imperialist fight," Morales said as he met Chavez and his ministers at Caracas' Simon Bolivar airport, a few days after visiting Cuban President Fidel Castro in Havana. "We are in a new era, we are in a new millennium, a millennium for the people, not for the empire," he said. Chavez, who accuses US officials of working to overthrow him, has become one of Washington's most vocal critics. His government has spent vast amounts of Venezuelan oil wealth on social programs for the poor and signed energy and trade deals with South American partners to counter US influence. Morales has criticized US anti-drug policies and promises to assert greater state control over Bolivia's huge gas resources. Morales said last month that he wants state-owned **Petroleos de Venezuela SA** to take a leading role in the development of his country's natural gas reserves, according to Bloomberg News. Morales, who takes office on January 22 as Bolivia's first indigenous president, traveled to Venezuela before continuing on a ten-day international tour that includes Spain, France, Brazil, China, and South Africa. France's **Total SA** and the Spanish-Argentine **Repsol YPF SA** are among foreign oil companies with big investments in Bolivia. Morales, who said December 16 that he was "the United States' worst nightmare," has not yet been invited to visit the US. On Tuesday morning, Morales met with US Ambassador to Bolivia David Greenlee in La Paz to discuss drug policy, Colombian daily *El Tiempo* reported. Morales' opposition to

US-led efforts to eradicate coca cultivation in Bolivia has alarmed Washington. Morales told Greenlee that as president he would work to combat narcotrafficking without altering the coca culture in Bolivia, where Indians use the leaf for appetite suppression and medicinal purposes.

Peru Requests Fujimori's Extradition from Chile

Peru on Tuesday formally requested that Chile extradite former Peruvian President Alberto Fujimori on human rights and corruption charges, Peruvian daily *El Comercio* reported. Peruvian special prosecutor Antonio Maldonado and Jose Antonio Meier, Peru's ambassador to Chile, delivered the official request to the Chilean foreign ministry, in addition to a dozen sealed boxes of documents detailing the allegations against Fujimori. The charges include 25 death squad killings in the 1990s, illegal phone tapping, diversion of state funds to Peru's intelligence service, bribery of politicians, and the transfer of $15 million to Fujimori's then spy chief, Vladimiro Montesinos. Maldonado expressed confidence that Chilean authorities would facilitate the former leader's return to Peru to face charges. "Peru's confidence in obtaining [extradition] is based on the serious actions and evidence that support the demand to expatriate Fujimori," he told a local news agency. Fujimori has been under arrest in Chile at Peru's request since his unexpected arrival two months ago from Japan, where he had lived in exile after his 1990-2000 authoritarian regime collapsed amid a corruption scandal. The evidence presented to Chile's foreign ministry includes testimony from many former key members of Fujimori's government, several of whom have been tried and convicted in recent years for misdeeds committed during Fujimori's administration, according to *The Washington Post*. Fujimori has denied the allegations, saying they are an attempt by his rivals to thwart his planned campaign for president in Peru's April election. The Chilean foreign ministry must now transfer the Peruvian extradition request to the Supreme Court, which is expected to rule after a process lasting several months. The Peruvian government has asked that Chile continue to detain Fujimori in Santiago.

FARC Rejects Prisoner-Hostage Exchange with Uribe Government

Colombia's largest rebel group, the FARC, said Sunday it rejects a proposed hostages-for-prisoners exchange with the government as long as Alvaro Uribe is president. In a statement posted on its Web site, the FARC said there was no real "political will" on the part of Uribe to move forward on an exchange, and that the president, who said last month he had accepted a proposal to withdraw troops from around a small mountain town as a condition for a possible exchange with the FARC, was only seeking to exploit the issue ahead of elections in May. If as widely expected Uribe is re-elected, the FARC statement means that some 60 hostages could remain in captivity until at least 2010, when Uribe's second term would end. Some of the hostages, which include former presidential candidate Ingrid Betancourt, three civilian US Defense Department contractors, and others, have already been held in jungle camps for as long as seven years.

Lula Says PT Will Have to "Sweat Blood" to Regain Lost Credibility

Brazil's ruling Workers Party has lost its credibility with Brazilians amid a corruption scandal and will have to "sweat blood" to regain it, President Luiz Inacio "Lula" da Silva said in a televised interview on Sunday, according to the Associated Press. With his popularity at an all-time low due in part to the scandal, which erupted in May when the PT was accused of illegal campaign financing and bribing lawmakers in exchange for their political support, Lula said he had not yet decided to run for re-election next year. "Right now, my only objective is to govern the nation in the best manner possible," he said. Recent polls show Lula would lose a second-round run-off vote to Sao Paulo Mayor Jose Serra of the opposition Brazilian Social Democratic Party. The corruption scandal has taken a toll on the PT and the government, forcing party President Jose Genoino and Lula's former cabinet minister, Jose Dirceu, to resign.

POLITICAL & ECONOMIC BRIEFS

Venezuelan Central Bank Director Sees Five Years of Growth

A member of Venezuela's Central Bank board said the country could could sustain "a spiral of sustained growth with a high social participation" for the next five years, but warned against electoral politics giving rise to "unbridled" spending. "The first thing to be careful with is that the election setting should not spur unbridled public spending, as has happened in the past," Armando Leon, one of five Central Bank board members, was quoted as saying in local daily *El Mundo*. Venezuela will hold its presidential election in December, and populist President Hugo Chavez is expected to secure a second six-year term.

Source: Reuters.

Mexico Demands Investigation into Immigrant Shooting Death

The Mexican government on Monday called for an investigation into the death of an 18 year-old man shot Friday while trying to sneak across the border into the United States. The US Border Patrol acknowledged that an agent fired at an immigrant who threw a large rock at him. President Vicente Fox's spokesman, Ruben Aguilar, said the man's death "does no more than provide evidence that only a law that guarantees legal entry and is respectful of human rights can resolve the migratory problem both countries face." The incident occurred after the US House of Representatives passed a tough immigration bill last month, sparking a furor in Mexico. [Editor's note: look for a related Q&A in this coming Monday's issue of the daily *Latin America Advisor*.]

Source: Associated Press.

Featured Q&A
Continued from page 1

ty of exhaustion of world oil supply in the next few decades."

A **Guest Comment: Beatrice Rangel:** "Senator Lautenberg is most probably reacting to his constituents' concerns over high fuel and gasoline prices. If so, he must be assuming that a WTO panel would indeed rule that OPEC is a cartel and as such prevents competition in the energy sector, thus it should break up. While I do think that the spirit and the letter of the WTO treaty clash with OPEC's *raison d'etre*, I am not altogether sure that the break-up of the organization would be the best policy. Indeed, fossil-based energy systems are rapidly reaching the exhaustion phase of their life cycle. Any one even distantly familiar with the energy market is aware of the ominous event dubbed as Hubber's Peak. This means that the world has already consumed close to half the fossil energy reservoirs that exist on the planet. Thus the days of cheap energy are simply gone until the world sets in place an alternative to fossil-based energy systems. Breaking up OPEC in light of the high market concentration will just substitute a public cartel for a private cartel. I would thus side with an international cooperation agreement between oil and gas producers and consumers that gradually increases prices and earmarks resources to develop alternative energy sources. Such a plan would of course have to take into account the development needs of the oil and gas producers, or else the rising discontent of the many with the lack of downstream links from energy projects in the local economy to create jobs and wellbeing will exacerbate populist calls for nationalization of energy resources."

A **Guest Comment: Geoffrey Milton:** "OPEC has been in existence for over 30 years, but with oil prices at today's heights (in current prices, but not when adjusted to 1973 levels), we should not be surprised that some members of the US Congress would only suggest now using the WTO to bring oil prices down. However, the real issue is not OPEC, which is producing oil at maximum capacity, but rather the disruptions in supply of refined products during the hurricane season, the substantial increase in demand from the Asian economies, particularly China and India, and the dramatic cutback in Iraqi production resulting from the hostilities, all which have contributed to crude at over $60 per barrel. Add to these the fact that no new US refining capacity has been built in over 25 years, and we can understand why the gasoline price at the pump is so high. What Congress should really be focused on is an effective energy policy which reduces dependence on OPEC supply from one of the most unstable regions in the world. Investment in alternative energy, nuclear power, domestic oil and gas reserves, coal production, etc. should take precedent over placating the environmental lobby. In fact, at $60 a barrel, OPEC's influence will inevitably wane as other countries invest more in coal and nuclear power options which become more economic. As a heat source, the other obvious alternative is natural gas, available in vast quantities in the very same OPEC countries, but not subject to the oil export regime. But again it is the environmental lobby and a NIMBY (not in my back yard) attitude, which are impacting the construction of the required new LNG terminals in the United States. The chances of WTO action against OPEC are nil. We really need to look to ourselves to solve the problem of high energy costs."

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