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Featured Q&A with the Energy Board of Advisors

Q The Colombian government last month announced plans to privatize 20 percent of state-owned oil company Ecopetrol and to reform the management structure of the company to give it more independence. What impact do you think the government measures will have on Ecopetrol? Will the government be able to overcome resistance to Ecopetrol's partial privatization by the company's unionized workers?

A Board Comment: Roger Tissot: "The administration of President Uribe has been characterized by its pragmatism and the participation of business people in key decision-making posts, including the energy sector. The government has favored pro-market policies, and contrary to other Latin American countries there is limited support for 'resource nationalism.' The opening of 20 percent of Ecopetrol's equity to private capital is part of a carefully designed strategy aimed at transforming Ecopetrol into a more efficient and competitive corporation. The model they are using is likely Petrobras, perhaps the most successful Latin American state oil company. Despite its opposition, it is unlikely Ecopetrol's union would be able to reverse the strategy. It is not only that the political power of unions in Colombia have never been as strong as in other Latin American countries, but it has weakened even fur-

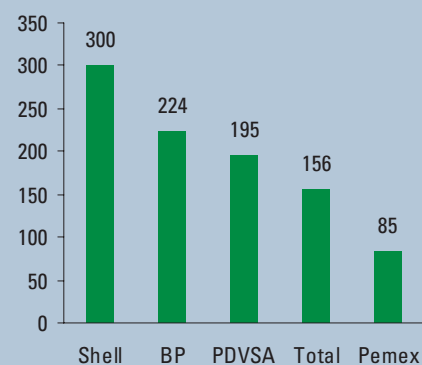
ther under Uribe's strong pro-business policies."

A Board Comment: Luis Giusti: "Under President Uribe, the Colombian oil and gas industry has undergone major reforms aimed at attracting new capital into exploration and production. These reforms were very much needed in order to arrest the steep decline that has affected the country's production during the past several years. In fact, current production stands at about 530,000 barrels per day
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CHART OF THE WEEK

Pemex's Productivity vs. Other Oil Majors

Barrels of oil per day per employee



See related news on page 3.

Source: El Universal.

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ENERGY SECTOR BRIEFS

Venezuela's EDC Posts 75.9 Billion-Bolivar Q2 Profit

Electricidad de Caracas (EDC), Venezuela's largest electricity company, last Friday reported a 75.9 billion-bolivar (\$US 28.8 million) second-quarter profit, up from 65.1 billion bolivars for the same period of 2005, due to lower costs. In an earnings release, EDC said operating revenues fell slightly to 355.4 billion bolivars from 358.2 bolivars a year ago, due in part to a lag in tariff increases and to inflation. EDC is an affiliate of US power company **AES Corp.**

Mexico Agrees to Help US with Oil Supply Needs

Mexico has agreed to help the United States address oil supply shortages following **BP's** shutdown of its Alaska pipeline, White House spokesman Tony Snow said Tuesday. "We've had contact with the governments of Saudi Arabia and Mexico. If there are supply shortages, they have agreed to help us in trying to address those," Snow told reporters. Mexico, Saudi Arabia, and Venezuela are the top three foreign suppliers of oil to the US. **BP** shut down the pipeline, which transports crude from the company's 400,000 barrels-per-day Prudhoe Bay field, because of corrosion.

Oxy Confident it Will Recover Assets Seized by Ecuador

The US' **Occidental Petroleum** on Friday expressed optimism it would recover assets seized in May by the Ecuadorean government. However, Occidental, which is seeking \$1 billion in damages against Ecuador in an international arbitration court, said the process could take a long time.

Oil & Gas News**Pemex Denies Report it is in Talks with Union to Cut 30,000 Jobs**

Mexican state-owned oil company **Pemex** on Monday denied a report by local newspaper *El Universal* that it was in talks with the company's union to cut 30,000 jobs, or a fifth of its workforce, Reuters reported. "It's not true. There are no talks going on now. We don't have any information about this," a union spokesman was quoted as saying. Pemex has been looking for ways to reduce its workforce of about 110,000 unionized staff and 35,000 non-union workers to cut costs and improve efficiency in line with other global oil companies. According to *El Universal*, some 50 percent of Pemex's labor force provide just 2 percent of production, making the company one of the least productive oil companies

Reuters. The newspaper reported that the planned job cuts would be in exchange for giving the union a greater share of contract work. *El Universal* did not cite sources for its report.

Venezuela to Auction Licenses for Four Offshore Gas Blocks

Venezuela announced Tuesday it would auction off exploration and production licenses for four offshore, non-associated natural gas blocks. In a press release, state-owned **Petroleos de Venezuela** (PDVSA) said 34 companies had been invited to bid on the four blocks near eastern Venezuela—three in the area of Blanquilla and one in Punto Pescador. **Chevron Corp., Exxon Mobil,** Russia's **OAO Lukoil** and **OAO Gazprom,** India's **Oil & Natural**

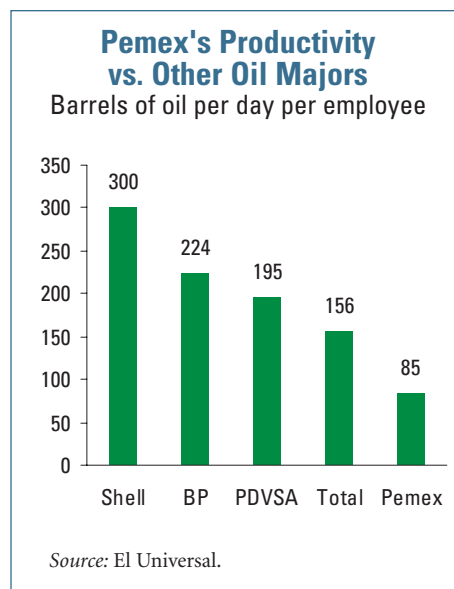
Some 50 percent of Pemex's labor force provide just 2 percent of production, making the company one of the least productive oil companies in the world.

in the world. A clause in Pemex workers' contracts says they cannot be forcibly moved from plant to plant, meaning the company keeps thousands of idle workers on its payroll at old oil wells or plants that have been closed down, according to

Gas Corp., and China's **Sinochem** are among the companies being invited to bid on the licenses for the blocks, Reuters reported. PDVSA will hold between a 35 and 70 percent stake in each block, Energy Minister and PDVSA President Rafael Ramirez said, according to Reuters. In its press release, PDVSA said it would open bids October 25 and award the licenses on November 21. In the last six years, the Venezuelan government has awarded 17 licenses to private companies to explore and produce natural gas, Ramirez said. Venezuela has some 150 billion cubic feet of proven gas reserves, and estimates an additional 196 billion cubic feet in unproven reserves, he said.

Argentina's Pan American Energy Boosts Gas Output in Northern Field

Pan American Energy, Argentina's second-largest oil and gas producer, announced Tuesday that it had invested \$110 million to increase its natural gas



production in a northern field by 45 percent, Reuters reported. The company said the gradual increase in production from 2.5 million cubic meters per day to 8.0 million cubic meters per day in the northwestern province of Salta, due partly to the construction of a new pipeline and the expansion of a gas processing plant, would "reinforce gas supplies to meet greater demand among industrial and residential users in northwestern and central Argentina." The announcement was welcome news to the government of Argentine President Nestor Kirchner amid concerns energy investment in the country is not keeping pace with demand. "This kind of investment is very important to us. It is very important that Argentine companies trust in exploring and developing reserves in Argentina, to generate tranquility, certainty and predictability," Argentine Planning Minister Julio De Vido told reporters, according to Reuters. Pan American Energy, which through the **UTE Acambuco** consortium is exploring and producing gas in Salta with the participation of Spain's **Repsol YPF**, is 60 percent-owned by oil company **BP Plc** and 40 percent-owned by Argentina's **Bridas Corp.**, according to Reuters.

Power Sector News

Hydro-Quebec Sells Panama Holdings for \$100 Million

Hydro-Quebec announced Thursday that it had sold its indirect 16.4 percent equity participation in the Fortuna hydroelectric generating station in Panama to **Enel Investment Holding**, a Dutch subsidiary of the Italian electric company **Enel**, for about \$100 million. The station in Panama had installed capacity of 300 MW, generating almost 30 percent of all electrical energy in Panama annually, according to a company release. Hydro-Quebec has been trying to shed international assets. The company recently sold equity stakes in assets in Australia, Chile, Costa Rica and Peru. Last month, Central American leaders met in Panama City to inaugurate a \$320 million regional electricity project that would build 1,830 kilometers of lines

Featured Q&A

Continued from page 1

(bpd), down from 830,000 bpd ten years ago. Those reforms include a revamp of the institutional framework with the creation of a regulatory entity (Agencia Nacional de Hidrocarburos) and the adoption of very attractive models for both exploration and incremental production, which have oil companies flocking into Colombian territory. The possibility of placing 20 percent of Ecopetrol's shares in the market has a perfect fit in that landscape and would translate into a stronger oil company with much improved accountability. It would also offer the opportunity of selling stock to Colombian pension funds. There is no doubt that the initiative will face opposition, but it would not imply ceding control (Petrobras has only 30 percent government equity), and the positive environment dominating the Colombian oil industry suggests a good probability of succeeding in getting the necessary approvals."

from Panama to Guatemala, the Associated Press reported. Panama's foreign relations ministry said in a news release that the lines would be built by 2008 and "would guarantee Central America's electric energy."

AES' Shares Surge on Second-Quarter Earnings Report

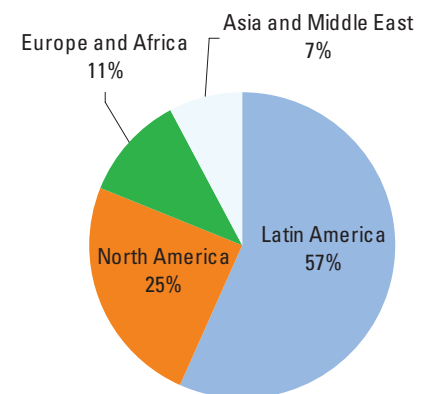
Shares in Arlington, Virginia-based power company **AES Corporation** rose Tuesday by 2 percent to a 52-week high after the company reported growth in revenues and earnings for the second quarter of 2006. Gains were fueled in part by rate increases, more demand, and some foreign exchange benefits. The company, which was near bankruptcy three years ago, said global revenues increased 15 percent to \$3.0 billion, compared to \$2.6 billion in the second quarter of 2005, and net income increased 99 percent to \$169 million, compared to \$85 million in the prior year quarter. "The company sees higher

A **Guest Comment: Hernan Arizmendi-Posada:** "It's the right decision and will have a very positive impact. Ecopetrol is Colombia's biggest company (it owns two-thirds of the total oil and gas reserves of the country, with 25 percent profits and assets of approximately \$6.5 billion). President Uribe's excellent initiative to privatize 20 percent of the company aims for new management policies with less red tape and bureaucracy, more capital and financial support, a fresh budget, suitable innovation, and a centered vision. Even with progressive, increased activity in its E&P efforts, it is very well known in the energy sector that if there are no substantial oil discoveries by the year 2008 Colombia could go from an oil exporter to an oil importer. The government's plan would also let Ecopetrol improve its necessary global E&P, obtain enhanced talent, and compete more efficiently in the market. Ecopetrol would seek to obtain positive results for Colombia's main energy priority, which is to increase new reserves to

Q&A continued on page 6

revenues and earnings in 2006, and has raised its guidance for diluted earnings per share from continuing operations," AES said in a statement. The results for the second quarter reflect AES' plans to sell its

AES: H1 2006 Revenues
by region, total \$6.02 billion in revenues



Source: AES.

140 MW Indian Queens power generation plant in the UK and Eden, a regulated utility in Argentina—operations that were recorded as discontinued in the second quarter 2006 results. Comparisons with prior periods have been adjusted to include the results from those businesses in discontinued operations, AES said. In Latin America, revenues in the second quarter rose to \$1.73 billion, up from \$1.53 billion a year ago. More than half of the company's worldwide revenues came from Latin America.

Official: Brazil Needs to Invest in Energy, Develop New Sources

Brazil needs to invest \$40 billion over the next ten years in order to guarantee electricity generation, Marcio Zimmermann, head of planning and development at the country's energy and mines ministry, said Tuesday, according to government news service Agencia Brasil. Zimmermann told the Federal Engineering, Architecture, and Agronomy Council, or Confea, that the main challenges to meeting demand in Brazil is developing new sources of energy, such as biomass, coal, and wind. He said hydroelectric power plants, while requiring costly investments and taking as much as five years to build, have the benefit of free fuel—water—and last 100 years. Other sources have high fuel costs and last only about a third as long, Zimmermann said. Hydroelectric power accounts for about 70 percent of Brazil's electricity supply, while 30 percent comes from thermal generation plants, he said. It was Brazil's over-reliance on hydroelectric power that led to blackouts in 2001, when the country was seized by a prolonged drought. However, Zimmermann said that the blackouts were the result of poor planning by the previous government.

Political News

Uribe Begins Second Term Promising to Seek Peace, Social Justice

Colombian President Alvaro Uribe began his second term on Monday, promising to pursue peace and to balance growth with social justice. "We insisted without fear in



Colombian President Alvaro Uribe during his inauguration speech on Monday.

Photo: SNE

our actions to obtain security. Fear will not stop us from negotiating peace," Uribe said in his inauguration address before Congress. "I confess my concern is something else: the risk of not achieving peace and regressing in security." In his first four years in office, Uribe took a hardline stance with the country's leftist rebel groups, stepping up a military campaign against them, while negotiating with right-wing paramilitary fighters to turn in their weapons and demobilize. He said after his re-election in May that he was willing to negotiate a peace with the rebels. In his inauguration speech, Uribe also said he would seek to balance growth with social justice, promising to encourage investment while continuing to spend on education, health, and housing programs. "We do not share the idea of propelling growth and abandoning the defeat of poverty to the fortune of the market," Uribe stated. "We believe in growth with social justice." Security in the Colombian capital, Bogota, was increased for the inauguration in anticipation of possible attacks by the country's largest rebel group, the Revolutionary Armed Forces of Colombia, or FARC. Thirty-two people, mostly soldiers and police, died last week in FARC attacks, which many analysts saw as a show of strength ahead of the inauguration. There were no reports of any major attacks on Monday.

Lopez Obrador Calls for Continued Protests in Wake of Court's Ruling

Andres Manuel Lopez Obrador, the runner-up in Mexico's July 2 presidential elec-

tion, on Sunday called for continued protests after the country's electoral court on Saturday rejected Lopez Obrador's demands for a full vote-by-vote recount, instead ordering a partial recount. In a speech to tens of thousands of supporters in Mexico City's Zocalo central square, Lopez Obrador asked them to gather in front of the Federal Electoral Tribunal tonight and said he would demand that the Tribunal "correct" its decision, the Associated Press reported. The Tribunal ruled Saturday that only ballots from 9 percent of 130,000 polling places be recounted. The partial recount was to begin on Wednesday and was expected to conclude by the weekend. According to a research note published on Monday by **Credit Suisse**, the number of votes to be recounted is roughly 5.3 million, or about 20 times the margin of victory of approximately 240,000 votes by conservative Felipe Calderon. "The conclusion of the upcoming recount should not be seen as the end of the Tribunal's work on assessing the results from the July 2 presidential elections," Credit Suisse analyst Alonso Cervera wrote. "We are probably still at least a couple of weeks away from the end of this process," Cervera added, noting a September 6 deadline for the Tribunal to declare a president-elect, who would take office on December 1. Lopez Obrador is showing no signs of letting up his campaign to be declared the winner, promising "new actions" and new civil resistance measures, and asking his followers "to prepare ourselves for a struggle that may last longer," the AP reported. Last week, his supporters established protest camps in Mexico City, blocking traffic and costing the city millions of dollars per day. The government on Friday increased security at Mexico City's international airport, and at power plants and oil refineries, in anticipation of possible protest actions by Lopez Obrador supporters, Reuters reported.

Castro Recovering Quickly, Does not Have Stomach Cancer—Cuban VP

Fidel Castro is recovering from stomach surgery quickly and will return to power in a few weeks, Cuban Vice President Carlos Lage said Sunday, according to the

Associated Press. "In a few weeks he'll be recovered and he'll return to his duties," Lage said Sunday during a visit to Bolivia. "Fidel's going to be around for another 80 years." Lage earlier denied reports from Brazil that Castro, who turns 80 on Sunday, had stomach cancer. On Saturday, Brazilian daily *Folha de Sao Paulo* reported that Cuban officials had told Brazilian President Luiz Inacio Lula da Silva and members of Lula's Workers' Party that Castro has a malignant stomach tumor and could be unable to return to power. Lula also denied the report. Last Monday, Castro transferred power to his 75 year-old brother, Defense Minister Raul Castro, to undergo surgery and to recover from the operation. It was the first known instance of Fidel Castro ceding power in his 47 years of rule on the island. The news prompted celebrations among Cuban exiles in south Florida and the US government to step up efforts to push for democratic change in Cuba. In what was called a "message to the people of Cuba," US Secretary of State Condoleezza Rice on Friday said the US was committed to supporting a free Cuba. "All Cubans who desire peaceful democratic change can count on the support of the United States. We encourage the Cuban people to work at home for positive change, and we stand ready to provide you with humanitarian assistance, as you begin to chart a new course for your country," Rice said. Meanwhile, *The Miami Herald* reported this morning that broadcasts into Cuba by US government-funded TV Marti, have been increased. The US has contracted a private aircraft out of Key West to transmit aerial broadcasts, which are more difficult for the Cuban government to jam.

Chavez: Venezuela Will Probably Sever Ties with Israel

Venezuelan President Hugo Chavez said Tuesday he would likely sever relations with Israel to protest Israel's attacks in Lebanon, Reuters reported. "We have withdrawn our diplomatic representation from the state of Israel and they have also withdrawn their ambassador," Chavez was quoted as saying in a speech. "The most likely next step will be for us to break diplomatic relations, because I have no

interest in maintaining diplomatic relations, or offices, or businesses, or anything with a state like Israel." Last week, Chavez announced he had ordered the withdrawal of Venezuela's top diplomat in Israel, Charge D'affaires Hector Quintero, and Israel responded by recalling its ambassador from Caracas. Chavez has strongly criticized the Israeli offensive in Lebanon against Hezbollah guerrillas, in which scores of civilians have reportedly died. Over the weekend he compared Israel to Nazi Germany, accusing Israel of committing a US-backed "new holocaust." The comments have prompted criticism from Jewish leaders, who say the comments smack of anti-Semitism, *The Miami Herald* reported this morning. Chavez was also accused of making anti-Semitic remarks last year when he spoke of "some minorities, the descendants of the people who crucified Christ, [who] seized the riches of the world," according to the *Herald*. Chavez later said he meant greedy businessmen, not Jews.

Economic News

Argentina's Inflation Growth Slower than Analysts Expected

Argentina's inflation rose 0.6 percent in July, slightly less than some analysts had expected. Consumer prices accelerated ahead from its 0.5 percent increase in June due to price rises in the education and leisure sectors, but the data implies a "modest deceleration" in the pace of annualized inflation to 10.6 percent (from 11 percent in June), according to a research note from J.P. Morgan analysts today. "The soft July inflation report supports a fine-tuning of the CPI forecast for 2006," Vladimir Werning wrote. He is now expecting a fundamental revision in the inflation forecast for 2007 to 12 percent, down from a forecasted 15 percent. Price controls in the South American country, mandated by President Nestor Kirchner as part of his plan of economic recovery, have helped keep costs for things like food stable. Most analysts expect the popular price controls to stay in place through the next national elections, scheduled for April 2007.

POLITICAL & ECONOMIC BRIEFS

Petkoff Withdraws from Venezuelan Presidential Race

Opposition leader Teodoro Petkoff dropped out of Venezuela's presidential race on Friday, the Associated Press reported. Petkoff said he would support a single candidate from among the country's split opposition to run against President Hugo Chavez on December 3. Petkoff, editor of Venezuela's *Tal Cual* newspaper, said he would continue working to oppose Chavez, whom he calls authoritarian.

New Foreign Exchange Rules Go Into Effect in Brazil

New foreign exchange rules in Brazil that allow exporters to keep part of their dollars overseas for as long as they want went into effect on Friday, Reuters reported. The new rules are a diluted version of a proposal that would have let exporters keep all sales proceeds abroad. However, the government decided against that proposal because of fears it would hurt tax revenues. The rules that went into effect on Friday do not specify the percentage of sales proceeds that exporters can keep abroad, saying that Brazil's national monetary council will determine that amount, according to Reuters.

Chavez Appoints Nicolas Maduro to be Venezuelan Foreign Minister

Venezuelan President Hugo Chavez said Tuesday that he had appointed Nicolas Maduro, the president of the country's National Assembly, to be foreign minister, local daily *El Universal* reported. Maduro replaces Ali Rodriguez, who Chavez said had health problems. The Venezuelan leader also said he named another lawmaker, Jose Khan, to be minister of basic industry.

Featured Q&A*Continued from page 3*

continue being oil self-sufficient. If Congress approves the privatization initiative, which will take at least a year, the new Ecopetrol may focus more aggressively on its investments without thousands of barriers and politic interests that compete every year with other important government budget priorities (health and education, security, infrastructure, and labor, among others). It's not going to be easy for the government to overcome resistance to Ecopetrol's partial privatization, but it's probable when reminded of similar experiences (ISA, Telecom, and others). In this particular circumstance, with appropriate business-to-business and hand-to-hand government relations, not only Colombia but the company and all of its employees will be receiving several beneficial outcomes. The powerful Ecopetrol union requires a futuristic vision and understanding of how that will take place. This is what Colombia needs to achieve in order to tackle its energy challenges. If Ecopetrol maintains its actual legal framework and ownership, it will be just a company that is left behind."

A Guest Comment: Dario Alvarez: "More than just a company, which also happens to be the biggest company in the country by a very wide margin, Ecopetrol represents Colombia's future and its potential. Consequently, there is a substantial gap between what Ecopetrol is and what Colombians believe it is. In closing this gap lies the answer of whether Ecopetrol will be able to successfully implement the changes toward a 20 percent privatization. Why would you want to sell a stake in a very profitable business? How could you say that a company that provides the largest revenues to the government, year after year, be in crisis? From where is the gasoline used by Colombians going to come? By privatizing part of Ecopetrol, will everything become more expensive? These would be common questions by those opposing the privatization plan. Inevitably the government must educate the public by explaining that there is a

substantial difference between being profitable today and being profitable and relevant tomorrow. In order for Ecopetrol to be relevant and remain competitive in a globalized environment, it needs independence from the governmental budgetary process and isolation from the fluctuations of every administration in terms of macroeconomic poli-

“While resistance to the changes will be profound, the benefits of limited privatization outweigh the risks of complacency and status quo.”

- *Dario Alvarez*

cy. It also must have more capital to have a viable exploration roadmap that increases reserves, and it needs to attract qualified talent from a very tight global market pool. Colombia needs hydrocarbon self-sufficiency more than ever if it hopes to continue to grow. While resistance to the changes will be profound, the benefits of limited privatization outweigh the risks of complacency and status quo."

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Latin America Energy Advisor

is published weekly by the Inter-American Dialogue, Copyright © 2006

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Latin America Energy Advisor is published weekly by the Inter-American Dialogue 1211 Connecticut Avenue, Suite 510 Washington, DC 20036 Phone: 202-822-9002 Fax: 202-822-9553

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