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## LATIN AMERICA ADVISOR | Energy

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

**Q** Amid a recent slew of oil exploration contract signings, Daniel Saba, the chairman of the board of Peruvian state oil contracting agency Perupetro, last month predicted that Peru would become a net oil exporter "in three or four years." Do you agree? What is the potential for Peru's oil sector? How would you rate the Andean nation's investment climate, particularly compared to other countries in the region?

**A** Guest Comment: Maria Velez de Berliner: "The \$3 billion LNG Pampas Melchorita plant is the largest investment project in Peru today. Peru offers risk-mitigation regulations that warrant investing in the country. This is why it has over 50 active hydrocarbons exploration contracts. Peru has oil reserves of 5.5 billion barrels. Recent discoveries in Lot 67 and potential similar discoveries in adjacent Lot 68, in El Marañon, make Lot 67 the largest oil discovery in Peru. It will increase oil production to 220,000 barrels per day (bpd), up from 120,000 bpd today. Given that in 2006 internal demand was about 150,000 bpd, Peru has a high probability of becoming a net oil exporter by 2010, when Lot 67 will operate at full capacity, provided internal demand remains at 2006 levels. Unlike Bolivia and Venezuela, where the hydrocarbons investment climate is fraught with uncertainty and legal entanglements, Perupetro guarantees six invest-

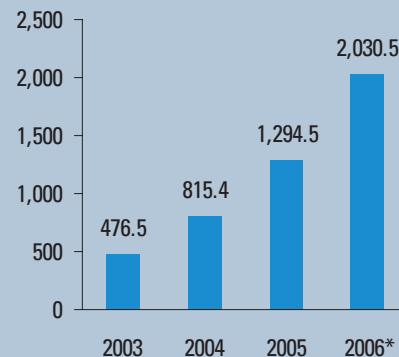
ment incentives: 1) two models from which investors can choose competitive royalty agreements; 2) contract flexibility; 3) free-of-charge, reliable data; 4) transparent information; 5) clear rules regarding environmental protection in exploration areas; and 6) dispute resolution by special commercial courts (juzgados) in 60 days. Perupetro offers other advantages: expropriations, common in Venezuela and Bolivia, can't happen without congressional review and approval, and must be compatible with the national interest. It is clear from today's hydrocarbons laws that the sector's development and commercial-

*Q&A continued on page 6*

### CHART OF THE WEEK

#### Bolivian Hydrocarbons Exports

2003-2006 (\$US millions)



See related story on page 2.

\*estimate

Source: Bolivian Chamber of Hydrocarbons

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## ENERGY SECTOR BRIEFS

**Petrobras Signs \$645 Million Contract for Drilling Rig**

Brazilian state-owned oil and gas company **Petrobras** has signed a five-year, \$645 million contract with Aberdeen, Scotland-based **Larsen Oil and Gas Ltd.** for a semi-submersible drilling rig, Bloomberg News reported early Wednesday. The drilling rig, which is currently under construction, is expected to start operating offshore Brazil by December 2009. The rig is owned by **PetroMENA**, in which Norway's **Petrolia Drilling** has a 43.5 percent stake.

**Statoil Confirms Dry Gas Find in Venezuelan Offshore Block**

Norwegian state-controlled oil and gas group **Statoil** said Friday it found dry gas in an exploration well off Venezuela but said it was too early to estimate how much, Reuters reported. Statoil said it confirmed the existence of dry gas after completing the drilling of the first of three wells in Block 4 of Plataforma Deltana, off eastern Venezuela. Statoil has a 51 percent share in the block, while France's **Total** has the remaining 49 percent.

**Energy Investment Firm Conduit Capital Names Five New Partners**

New York-based **Conduit Capital Partners**, a private investment firm with \$393 million invested in the independent electric power industry in Latin America and the Caribbean, has named five new partners. Eyob Easwaran, Marc Frishman, Samuel Gomez, Juan F. Paez, and Liliana Rauch were all promoted from within, announced firm Chairman J. Scott Swensen in a press release. Conduit is investing its \$393 million Latin Power III fund, which it says is the largest private equity fund investing in the region.

**Oil & Gas News****Chamber: Bolivian Hydrocarbons Exports Rose 56.9 Percent in 2006**

The value of Bolivian oil and gas exports increased an estimated 56.9 percent in 2006 from the previous year and now account for more than half of the value of the South American nation's exports, the Bolivian Chamber of Hydrocarbons said in a report on Friday. The Chamber said the value of 2006 hydrocarbons exports—about three quarters of which are natural gas—is projected at \$2.031 billion, versus total exports of \$4 billion, and is 326 percent higher than in 2003. It attributed the growth to higher prices as well as to an increase in natural gas export volumes,

about 26 million cubic meters of gas a day from Bolivia, below an agreed maximum of 30 million cubic meters daily.

**Shell Brasil Confirms Commercial Viability of Offshore Discoveries**

The Brazilian unit of **Royal Dutch Shell** said last Thursday that it and two partners had confirmed the commercial viability of two areas in an offshore oil block. In a statement, **Shell Brasil** said it and its partners in the block, **Chevron** and Brazilian state-owned oil and gas company **Petrobras**, confirmed the commercial viability of two areas in Block BS-4, in the Santos Basin off the coast of Rio de Janeiro, after an "intense program of exploration and evaluation." Shell had until the end of the year to decide whether

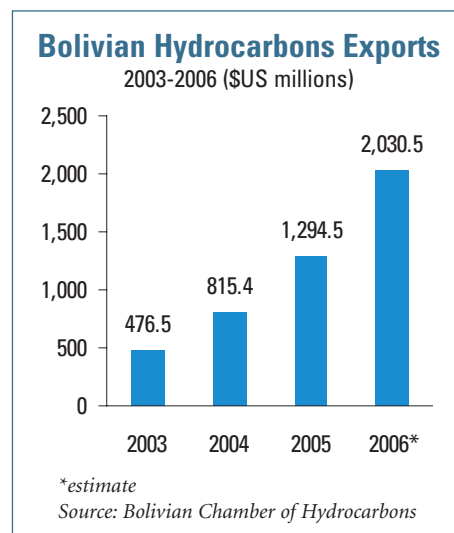
*The value of oil and gas exports now account for more than half of the value of Bolivia's total exports*

particularly to Brazil, which depends on Bolivia for half of its natural gas needs. Brazil is currently in negotiations with Bolivia over the price of natural gas exports. Under a new 20-year agreement signed with Bolivia in October, Argentina agreed to pay \$5 per million British thermal units. That deal is expected to result in \$17 billion in revenues for Bolivia, which has the second-largest natural gas reserves in South America. Brazil currently imports

to relinquish the block to the government's National Petroleum Agency or keep it, according to Reuters. "We know that we will have to continue working to evaluate the discoveries and define a development concept that is considered economically viable," John Haney, Shell Brasil's vice president for exploration and production, was quoted as saying in the statement. The BS-4 block, with a depth of 1,550 meters, showed 1.6 billion barrels of total in-place heavy oil accumulations, according to Reuters. Shell, which operates Block BS-4, has a 40 percent stake in the consortium that has rights to the block. Petrobras has 40 percent and Chevron 20 percent.

**Cuba Behind in Payments to Canadian Oil Companies**

Cuba's state-owned oil company is late on some \$69 million in payments it owes to Canadian companies that operate a drilling and production concession on the island nation's heavy-oil producing Block 7, Montreal-based **Pebercan** said last week, according to Reuters. Pebercan said it has stepped up talks with Cuban officials



to deal with the issue. A partner at Pebercan said that **Cubapetroleo** (Cupet) owes his company \$37 million and \$32 million to **Sherritt Oil and Gas** under a production-sharing and sales agreement for the onshore concession. The Canadian companies' production on Block 7, located off Cuba's north shore between Havana and Matanzas, continues to produce some 22,000 barrels per day (bpd) despite the late payment issue, Pebercan said, and work drilling three wells continues. Pebercan has exploration and operation rights to five onshore permits in Cuba, according to Canada's *Oilweek Magazine*, and sells all of the oil it produces to Cupet. Pebercan's concessions covered 6,055 square kilometers as of end-2005, according to Reuters. The United States' embargo on Cuba prevents US companies from investing in the Communist nation, but Canadian and other foreign companies have been able to invest and profit from Cuba's oil sector. Of the approximately 68,000 to 70,000 bpd of Cuba's domestic production, some 95 percent is used to power the country's deteriorating electricity grid, according to Jorge Pinon, a research associate at the University of Miami and a former oil industry executive. So despite the Caribbean island's onshore oil reserves, the country has turned to importing some 100,000 bpd of crude, diesel, jet fuel, and fuel oil from Venezuela to meet steadily rising demand. Venezuelan President Hugo Chavez supplies oil to Cuba in exchange for the human capital that Cuba can offer Venezuela: well-trained Cuban medical doctors and other specialists that go to work in Venezuela. Cuba announced a significant offshore find in December 2005, but so far there has not been any drilling offshore nor have the reserves been proven useable.

### Duke Energy Spins Off Natural Gas Business

**Duke Energy** spun off its natural gas business on January 2, creating **Spectra Energy**, a NYSE-traded, stand-alone company. The North Carolina-based company's Latin America power generation activity, comprising 4,200 megawatts of generation, now comprises one of four

## Research Alert

### Report: Venezuelan "Petropolitics" Having Only Limited Success

Venezuela's attempts to use its oil wealth to influence its Latin American neighbors are meeting with only limited success, according to a report published last month by the Inter-American Dialogue.

Genaro Arriagada, the report's author, called efforts by the government of Venezuelan President Hugo Chavez to wield the country's oil wealth "unprecedented" and wrote that "it is difficult to find a similar case of a Latin American country employing its commodity wealth so openly in the international arena."

However, attempts by the Chavez government to engage in "petropolitics" were limited—except in Central America and the Caribbean—by the wealth of energy resources in the region that makes using oil or natural gas as foreign policy weapons difficult.

Even in energy resource-poor Central America and the Caribbean, "Venezuela has not gained a clear political advantage," despite generous oil deals with countries of the two regions, wrote Arriagada, director of Chile's *Diario Siete* and former Chilean government official and diplomat.

He noted that in 2005 Caribbean countries benefiting from the Petrocaribe agreement with Venezuela voted for Colombian Luis Alberto Moreno to succeed Enrique Iglesias as president of the Inter-American Development Bank, despite Chavez's opposition to Moreno.

The Chavez government is also failing to strengthen its oil sector, instead diverting revenues from sky-high oil prices to social programs and further weakening its ability to use its oil wealth to exercise influence in the region, according to Arriagada.

"Chavez's oil diplomacy takes place within a very specific, adverse context marked by stagnant production, public and private underinvestment, poor management and politicization at PDVSA, and the refining challenges of super-heavy crude oil," Arriagada wrote.

"Under these conditions, successful petropolitics will be possible only if prices remain high. A significant price drop could not be offset by increases in production, at least not in the medium term. Nor could growth in other sectors of the economy be a substitute, since the Chavez regime has not used oil revenues to promote sustained growth elsewhere in the economy," he wrote.

*Editor's note: a copy of the full report, "Petropolitics in Latin America," can be downloaded at <http://www.thedialogue.org/publications/2006/winter/arriagada.pdf>.*

of the new Duke Energy business segments. About 75 percent of Duke Energy's Latin America capacity is hydroelectric, and approximately 80 percent is under contract, according to a Duke Energy

press release. James E. Rogers will be Duke Energy's chairman, president and CEO, and its board of directors will be expanded beyond its current 10 members in 2007, the company said.

## Power Sector News

### GE Selling Hydro Business to Argentina's Pescarmona Group

**General Electric** last month announced that it had signed a definitive agreement to sell **GE Energy's** hydro business to Argentina-based **Pescarmona Group of Companies** (PGC). The sale includes GE Energy's worldwide hydro business, excluding its hydro operations in Norway and Sweden, two countries which may yet come under the deal, the companies said in a press release. The agreement, the terms of which were not disclosed, is expected to close during the first quarter of this year. "Although GE's hydro team has been delivering solid performance improvements, the business has re-evaluated the position of the hydro segment with respect to other growth opportunities. We believe the sale of our hydro operations to PGC will position them to meet hydro customer needs, while structuring the operations for continued growth and stability over the coming years, and allow GE Energy to focus on other segments of the power generation industry," said John Krenicki, president and CEO of the Atlanta-based GE Energy. Besides having a focus on the hydro industry, PGC maintains a presence in businesses such as wind power generation and other activities. It employs more than 6,000 people and operates in 27 countries. "Through this acquisition, PGC enhances its position as a global player within the hydro industry, with presence and production facilities in North and Latin America, Europe, and Asia," said PGC Chairman Enrique Pescarmona. GE Energy's hydro segment is headquartered in Schenectady, NY and employs some 2,000 people globally.

## Political News

### Lula Sworn In for Second Term, Vows Faster Growth, Fight Against Poverty

Brazilian President Luiz Inacio Lula da Silva was inaugurated to a second four-year term on Monday, pledging to combat poverty and accelerate economic growth. In his inauguration speech before

## The Dialogue Continues

*A continuation of the December 20, 2006 Q&A*

**Q** "Resource nationalism" was on the rise in Latin America in 2006, with governments in Bolivia, Ecuador, and Venezuela moving to assert greater control over and extract greater wealth from their hydrocarbons sectors. Will resource nationalism continue to rear its head in Latin America in 2007? How will foreign companies react?

**A** **Guest Comment: Alex Monroy:** "Yes, I believe it will continue to be an issue in 2007. Countries that announced their intention to change their hydrocarbons regime, such as Venezuela, Ecuador, and Bolivia, will be implementing the necessary corollary reforms and renegotiations in order to enable the changes to take effect. International companies' decisions to remain or leave a country will probably be made on the basis of profitability and available alternatives. Therefore, taking Venezuela as an example, I expect that most companies already present there will choose to remain, unless the government makes it absolutely unprofitable for them to do so, because there are only very few places in the world which rival Venezuela's

hydrocarbon wealth and because so many investments there have already been made. I expect resource nationalism to remain an important issue in other countries as well, however. In Argentina, for example, consumer gas prices have been kept artificially low since the devaluation of the peso in 2002, failing to compensate producers adequately to increase gas supply in tandem with demand. Paradoxically, instead of paying local producers more, Argentina has sought to plug their gas shortage via imports at prices closer to international reference levels and gas export cuts to Chile, which I expect will continue, as well as the continued heavy tax burden levied on the country's hydrocarbons sector. I also expect the issue to remain a hot topic in Mexico (*i.e.*, the country's energy reform), though it remains to be seen whether the new government will implement meaningful changes in 2007."

**Alex Monroy** is a Managing Director and an Emerging Markets Analyst at Bear Stearns.

Congress after taking the oath of office, Lula touted the accomplishments of his first four-year term, but said much work remained to be done to harness Brazil's potential. "Four years ago I said that the word 'change' would rule in our government. And Brazil changed. Today, I say that the words 'accelerate,' 'grow,' and 'include' are going to rule in Brazil these next four years," Lula said, according to a transcript of the speech published by state news service Agencia Brasil. "We are going to unshackle Brazil to grow and be inclusive more quickly." The Brazilian leader said he would seek to propel growth through a combination of public investment and measures to stimulate private

investment, such as tax cuts and expanded access to credit, while maintaining fiscal responsibility. The government will this



Lula waved to crowds during a procession as part of his inauguration in Brasilia on Monday.

*Photo: Agencia Brasil.*

month announce a "Program for Faster Growth," part of a larger pro-growth package the government will seek to implement, Lula said. With Brazil's economic growth the past two years—the economy is expected to have expanded between 2.5 and 3.0 percent in 2006, one of the lowest rates of growth in Latin America—Lula has made faster growth a priority. In November, Finance Minister Guido Mantega proposed several measures designed to boost economic growth, including tax cuts and reductions in government spending, as well as greater investment in infrastructure [Editor's note: see related Q&A in the November 21, 2006 issue of the *Advisor*]. Brazil's economy is expected to grow 3.4 percent in 2007, according to a recent poll of Wall Street investment banks conducted by the *Advisor*. On the social front, Lula also promised to continue programs designed to fight hunger, expand access to electricity, and improve education. "To govern for all is my path, but defending the interests of the poorest is what guides us on this journey," he stated.

## Economic News

### Correa Government May Force Bondholders to Accept Buyback

The incoming government of Ecuadorean President-elect Rafael Correa is considering forcing bondholders to accept a buyback of the country's global bonds due in 2012 by threatening not to pay interest, Correa's choice for the post of economy minister, Ricardo Patino, said Wednesday, according to Reuters. "This is an alternative and we are studying several alternatives," Patino was quoted as saying during a television program in response to a question about whether the incoming government would not pay interest to force creditors to accept a buyback to be managed through a Dutch auction, a process where an asking price moves downward until it is accepted by a bidder. Patino provided no additional details. However, he later distanced himself from the comments, stating "we have a thousand options" to manage the country's debt, according to Reuters. "We have to see

if there are resources to pay debt interest," he told reporters. "If we have it, we will pay it, and if not, we will call creditors." HSBC said in a research note that Patino's comments helped contribute to uncertainty among investors over Ecuador's plans for its foreign debt. "In fact, the consistent fluctuation in rhetoric suggests that a plan is still in its inception stage and that the incoming administration is still evaluating rewards and risks of the various options," HSBC said. Correa, who takes office on January 15, has spooked investors with talk of restructuring some \$10 billion in foreign debt. On Tuesday, he said his government could adjust debt service if the \$900 million left in arrears by the current government generates budgetary problems this year, Reuters reported. Patino said last month the incoming government would announce a debt restructuring package similar to Argentina's 2001 default by February. In other Ecuador news, incoming US Senate Majority Leader Harry Reid (D-NV) said Friday that he would seek to extend trade benefits for Ecuador, despite Correa's vows not to extend the lease of an air field used by the US military as a base for counternarcotics operations in the region, Reuters reported. Reid, one of a six-member US Senate delegation visiting Ecuador, said "there should be no connection" between trade agreements and the US' use of the Manta air base, the lease of which Correa says he will not extend past its 2009 expiration. Last month, Congress passed a six-month extension of trade benefits for Ecuador despite contentions by Republican lawmakers that Ecuador had not done enough to deserve the benefits, according to Reuters.

### Brazilian Trade Surplus Rose to Record \$46 Billion in 2006

Brazil's trade surplus reached a new high in 2006 as exports enjoyed strong demand from abroad, the country's trade ministry reported on Tuesday. Brazil struck an all-time record trade surplus of \$46.08 billion, which was also boosted by high global commodity prices. "These results have never been reached and they surpass the goals established by the ministry of development, industry, and foreign trade for

## POLITICAL & ECONOMIC BRIEFS

### Venezuelan Economy Grew 10.3 Percent in 2006—Central Bank

Venezuela's economy grew 10.3 percent in 2006, as record oil revenues drove a surge in consumer demand, Bloomberg News reported on Friday, citing a statement by Central Bank President Gaston Parra. Parra did not say how much the economy expanded in the fourth quarter. That figure is expected to be released in mid February. Venezuela's economy has grown at least 10 percent for the last six quarters and 10 of the last 11 quarters.

### Calderon Expands Mexican Counterdrug Offensive to Tijuana

The government of Mexican President Felipe Calderon announced Tuesday it was sending nearly 3,300 soldiers and federal police officers to fight drug gangs in the crime-ridden border city of Tijuana. The operation expands an offensive mounted in Calderon's first few days of office last month when he sent 7,000 soldiers and police to the state of Michoacan to crack down on drug activity.

### Brazilian Govt. Sending Security Force to Rio de Janeiro State

Brazil's federal government is sending a national security force of military policemen to Rio de Janeiro state to curb gang violence in the city of Rio, Rio Governor Sergio Cabral Filho said Wednesday, according to Reuters. Cabral Filho gave no exact time or date for the military police deployment, but said they would be initially sent to the state's border. Rio is a major tourist destination and business center, and will host a summit of presidents from the South American Mercosur trade bloc later this month, according to Reuters.

**Featured Q&A***Continued from page 1*

ization are in the national interest, and anything that hinders them is not. Occidental Petroleum recently abandoned three lots in the Amazon zone under pressure from the Achuar Indians. I believe this decision had more to do

“ It is clear from today's hydrocarbons laws that the sector's development and commercialization are in the national interest, and anything that hinders them is not.”

- *Maria Velez de Berliner*

with the troubled history of Oxy in the Andes than with the activities of other investors or the government. The six million hectares in pre-exploration stages in El Marañon fall under a joint venture between PetroPeru and Brazil's Petrobras, which is known for its environmental protection programs. Others will follow suit, and sector investment will continue to grow in 2007. With the majority of world oil reserves in unstable countries, Peru is proving it can be a reliable and steady partner that welcomes investment and protects it.”

**A** **Guest Comment: César Gutiérrez:** "There are tangible reasons to trust in Peru's showing itself to international mar-

2006," interim Trade Minister Ivan Ramalho was quoted as saying in a statement on the ministry's Web site. Exports in 2006 reached \$137.47 billion, a 16.2 percent increase over 2005, while imports totaled \$91.39 billion, a 24.2 percent year-on-year increase. Commodities and semi-manufactured goods saw 16.9 percent and 23.3 percent increases in exports, respectively, amid higher international prices, the ministry

kets as attractive for investments in the hydrocarbons sector. It closed 2006 with annual inflation of 1.5 percent and GDP growth of 7.5 percent; close to 40 hydrocarbon exploration contracts; 18 lots being promoted for competition between interested parties, making it necessary to auction them; public and private oil companies, such as Brazil's Petrobras and very soon Ecopetrol, that sign agreements with state-owned PetroPeru; as well as specific association agreements between Petrobras and PetroPeru, which have taken six million hectares in Peru's Amazon region for exploration. Likewise, banks have shown interest in participating in the financing of \$1 billion for the modernization of state-owned Talara Refinery, which should conclude this year. To the above should be added the announcement by Barret Resources of the discovery of crude in Lot 67, where 200 million barrels have been confirmed with estimated production 100,000 barrels per day (bpd). The expectation is that oil exports will increase from 27,000 bpd to 67,000 bpd, but with the addition that self-sufficiency in domestic supply will be achieved. Today some 30,000 bpd of crude are imported. That gives cause to look at the future with a lot of optimism."

**Maria Velez de Berliner** is President of *Latin Trade Solutions Inc.*

**César Gutiérrez** is President of the Board of *PetroPeru*.

said. A 15.6 percent increase in exports of manufactured goods was mostly due to higher export volumes than to international price increases. Ramalho said that he expects exports to reach \$152 billion in 2007. "We created the solid base and consistent numbers that guarantee us an excellent result in 2007," he said. December's trade balance was also high at \$5.01 billion, surpassed this year only in July.

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