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Featured Q&A with the Energy Board of Advisors

Q Last week, Venezuelan President Hugo Chavez used new powers given to him by Venezuela's National Assembly to decree the transfer of control of four heavy oil projects from private foreign companies to state-owned oil company PDVSA, pending negotiations with the companies. What is the future of the projects? Is a conflict between the companies and the government on the horizon? What will it take to convince the companies to accept a loss of operational control and to continue to invest in the projects?

A Guest Comment: Patrick Esteruelas: "A large majority of investors in Venezuela's heavy oil projects are expected to abide by new tougher terms to ensure future revenues and recoup the value of their original investments, but will look to extract as many concessions from the Venezuelan government as possible over compensation and additional opportunities going forward. The incentives to remain are still strong, with attractive rates of return on all four projects and huge extra-heavy crude reserves that remain largely unexplored. All foreign heavy crude producers will try to obtain some material compensation, although the government will be reluctant to offer anything other than crude oil or reserves. They will also use this as an opportunity to secure addition-

al acreage in the future, although the government has so far not responded to their proposals to expand existing operations and has only invited state-owned companies from diplomatically aligned nations to quantify the Orinoco Belt's untapped extra-heavy crude reserves."

A Guest Comment: Nelson Altamirano: "It has to be clear that there is room for negotiation. The announcement last week calls multinationals to sit at the negotiation table, and Chavez seems to be

Q&A continued on page 6

PHOTO OF THE WEEK



Mexican President Felipe Calderon on Friday inaugurated an offshore oil platform and announced an expanded technology agreement between state-owned Pemex and Brazil's Petrobras. See story on page 2.

Photo: Los Pinos.

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ENERGY SECTOR BRIEFS

Technip Wins \$200 Million Contract from Petrobras

France's **Technip**, an energy services provider, won a four-year contract to charter the Sunrise 2000, a flexible pipe laying vessel owned by Brazilian state-owned oil company **Petrobras**, Reuters reported on Tuesday. The contract is worth about \$200 million and follows a \$150 million contract from Petrobras last week to build and test flexible pipes in developing Brazil's offshore Roncador field.

Petrobras Discovers Light Oil in Espirito Santo

Brazilian state-owned oil and gas company **Petrobras** announced Friday it had found reservoirs saturated with light oil through a well in waters off Espirito Santo state. The reservoirs, located under a thick layer of salt, indicated potential production may top out at 10,000 barrels per day, with total potential of some 570 million barrels, according to a press release. The offshore accumulation is situated nearly 120 kilometers to the south of the city of Vitoria and 15 km southeast of the Jubarte oil field.

Investor Group Buys ABB Businesses in Mexico, Brazil

An investor group led by **ACON Investments LLC** announced Monday it had acquired Swiss engineering company **ABB's** power lines components manufacturing businesses in Monterrey, Mexico and Belo Horizonte, Brazil. According to a press release, both businesses are leading manufacturers of steel lattice towers serving the United States, Canada, Mexico, and elsewhere in Latin America. Terms of the transaction were not disclosed.

Oil & Gas News**ExxonMobil Agrees to Transfer Operational Control of Oil Project**

ExxonMobil Corp. said Monday it has agreed to transfer operational control of its multibillion dollar **Cerro Negro** heavy oil project in Venezuela to state-owned **PDVSA** by May 1, Reuters reported. "Mobil Cerro Negro remains in discussion with [Venezuela's] ministry of energy and petroleum regarding the migration to a mixed enterprise structure, including the issues of value, contract sanctity, and compensation," ExxonMobil spokeswoman Susan Reeves was quoted as saying. "We are working to ensure that the transfer of operatorship is safely accomplished." Last week, Venezuelan President Hugo Chavez decreed the takeover by PDVSA of Cerro Negro and three other heavy oil projects

Tillerson told analysts Wednesday the company was not planning any new investments in Venezuela "given the conditions down there at this time and the uncertainty around how our current holdings are going to be dealt with," according to Reuters. Tillerson said ExxonMobil has already pulled some workers out of Venezuela as part of a "fairly normal transition." [Editor's note: see related Q&A on page 1.]

Pemex Expands Technology Agreement with Petrobras

Mexican state-owned oil monopoly **Pemex** has expanded a technology agreement with Brazil's state-owned **Petrobras** to help Pemex drill in deep waters and exploit heavy oil fields, Mexican President Felipe Calderon said Friday. "This opens the possibility of obtaining technological knowledge in drilling and development in

“We are working to ensure that the transfer of operatorship is safely accomplished.”

- ExxonMobil spokeswoman Susan Reeves

controlled by foreign companies, declaring "the privatization of oil in Venezuela has come to an end." Chavez set a May 1 deadline for the transfer of control. ExxonMobil and five other foreign oil companies—the US' **Chevron** and **ConocoPhillips**; Britain's **BP**; Norway's **Statoil**; and France's **Total**—have invested an estimated \$17 billion in the projects, and had been expected to strongly resist the takeover move. However, that resistance appears to be weakening somewhat amid ExxonMobil's announcement on Monday and Total's disclosure that it had held talks with the government over its stake in one of the projects. Energy Minister Rafael Ramirez told the companies that Venezuela would compensate them for seizing a majority stake in their projects with oil, not cash, and repeated a threat that if the companies do not reach an agreement over the terms of the projects, the government would take control. ExxonMobil Chief Executive Rex

deep and extra-deep waters, as well as in the exploitation of heavy oil fields," Calderon told Pemex workers at the inauguration of a \$250 million oil platform in the Gulf of Mexico, according to a statement posted on the Mexican presidential Web site. "This decision puts us on the right path to manage reserves in a sustainable way and continue increasing the rate of replacement [of reserves]," said the president, who provided no details. Calderon said Mexico's oil future depends above all on exploration in deep waters, and that he was committed to seeking technology agreements with companies experienced in deepwater exploration and production. However, analysts told the *Energy Advisor* last month that such partnerships would have a limited impact on production without more fundamental changes to the legal framework for investing in Mexico's oil and gas sector. [Editor's note: see related Q&A in the February 8, 2007 issue of the *Energy Advisor*]. Analysts

say Mexico needs to open up its energy sector to allow private-sector participation and to halt a decline in production levels. The country's Constitution prohibits private investment in oil and gas exploration or production. US President George W. Bush jumped into the debate on Wednesday, five days before a scheduled visit to Mexico as part of a week-long tour of the region, calling on Calderon to consider financing exploration and production with "funding sources outside its budget spending," Reuters reported. The energy ministry said Wednesday it was unaware of any talks planned between Bush and Mexican Energy Minister Georgina Kessel, according to Reuters. Mexico is one of the top three foreign suppliers of crude to the US.

Petroperu Signs MOUs to Build Pipeline, Petrochemical Plants

Peru's state oil company **Petroperu** on Tuesday signed memorandums of understanding with France's **Suez Energy** to build a \$500 million gas pipeline and with a Brazil's state-owned **Petrobras** to build \$2.8 billion in petrochemical projects, Reuters reported. Under the planned project with Suez Energy, Petroperu and the French firm will build a pipeline transporting gas from the central Pacific Coast port of Pisco to a yet-to-be determined end-point in southern Peru. The gas is transported to Pisco via an existing pipeline from the Camisea gas field—Peru's biggest—in the interior of the Andean nation. The first phase of the project will be six months of feasibility studies, according to Reuters. Under the accord with Petrobras, Petroperu and the Brazilian firm will build an \$800 million fertilizer plant and a \$2 billion polyethylene plant in unspecified sites in southern Peru.

Venezuela to Compensate BP, Total for Seizure of Jusepin Oil Field

Venezuela will pay approximately \$250 million—in the form of barrels of oil instead of cash—to the UK's **BP** and France's **Total** in compensation for its seizure of the Jusepin oil field, wire services reported Monday. The two companies,

Subscriber Notice

Inter-American Dialogue Discussion on

The Unsettled Andes: Current Economic and Political Issues

with

Marcelo Giugale
Director of the Andean Region,
The World Bank

Patrick Esteruelas
Latin America Analyst,
Eurasia Group

Wednesday, March 14, 2007
8:30 – 10:00 a.m.

Carnegie Endowment for International Peace
1779 Massachusetts Ave. NW, Root Room, 2nd Floor
Washington, DC

RSVP to meetings@thedialogue.org.
Please include your name and affiliation.

which had objected to pressure from Venezuelan state-owned oil company **PDVSA** to convert their concession into a joint venture or face government seizure of the field, had jointly managed Jusepin on a fee-per-barrel basis since oil first flowed from the site in 1998, according to Total's Web site. "Partners sometimes have different moments, one is up when the other one is down," Total CEO Christophe de Margerie said after announcing the terms of the takeover Tuesday in Caracas. "We've turned the page," he said, according to Bloomberg News. BP acquired its 55 percent stake in



Photo: Total.

the Jusepin project in its acquisition of **Amoco** several years ago. Total has been in Venezuela for over 30 years and by the late 1990s had become, as a result of projects like the 25,000 barrel-per-day Jusepin field, one of Venezuela's top foreign investors—and appears intent on remaining so despite the buyout. "Times change, seasons change, but what will remain the same is Total's desire to stay in Venezuela for a very long time," de Margerie said, according to Bloomberg News. Last month Total's board of directors decided to split the functions of chairman and CEO and has named de Margerie, who was previously the president of exploration and production, as the new CEO, while former CEO Thierry Desmarest dropped that title but remained chairman of the board.

Power Sector News

US Power Company PPL Selling Latin American Operations

US power company **PPL Corporation** announced Tuesday that it would sell its Latin American operations, saying it was redirecting its investments and had no plans to invest more in the region. In a press release, the Allentown, PA-based PPL said it would auction off its operating companies in Bolivia, Chile, and El Salvador, a process it said could take "several months." The three companies—**Empresas Emel S.A.** in Chile, **Distribuidora de Electricidad Del Sur S.A.** in El Salvador, and **Empresa de Luz y Fuerza Electrica Cochabamba S.A.** in Bolivia—provide electricity to a total of 1.1 million customers, and are responsible for about 5 percent of PPL's annual earnings, the company said. "Given that we have no intention of significantly growing our investment in Latin America, and that valuations are high for solidly performing electricity businesses in that part of the world, it is a good time to pursue this option for this relatively small portion of the PPL portfolio," PPL Chairman, President and CEO James Miller was quoted as saying in the press release. Miller said the three companies have been "solid contributors" to PPL's earnings, but that the company wants to redirect its investments. "We have decided to change our mix of businesses going forward in a way that we think will bring the most value to shareowners," he said.

Union Fenosa Awarded Contract to Build Power Plant in Mexico

Spanish gas and electricity company **Union Fenosa** said Tuesday it was awarded a contract by Mexico's Federal Electricity Commission to build a 450 megawatt combined cycle power plant in the Mexican state of Durango. In a press release, Union Fenosa said it would invest 305 million euros (\$US 400 million) in the Norte 1 plant as part of a plan to invest a total of nearly 1 billion euros in Mexico over the next five years and 3 billion euros total in power generation assets. "The award of the contract for Norte I in

Bush Says US Committed to Fighting Poverty in Latin America

On the eve of a week-long tour of Latin America, President George W. Bush said Monday the United States is committed to alleviating poverty and strengthening democracy in the region.

In a speech to the US Hispanic Chamber of Commerce in New York, Bush said that despite progress, widespread poverty continued in Latin America.

"In an age of growing prosperity and abundance, this is a scandal—and it's a challenge. The fact is that tens of millions of our brothers and sisters to the south have seen little improvement in their daily lives. And this has led some to question the value of democracy," Bush said.



Bush speaking on Monday at the US Hispanic Chamber of Commerce.

Photo: White House.

annual aid to \$1.6 billion. He said support through the Millennium Challenge Account, which provides aid to countries that meet certain criteria for political and economic freedom, would result in another \$865 million in new aid.

The president also said that in the coming months he would convene a White House conference on the Western Hemisphere with representatives from the private sector, non-governmental organizations, faith-based groups, and volunteer associations "to share experiences, and discuss effective ways to deliver aid and build the institutions necessary for strong civil society."

Bush touted US support for debt relief, trade and investment, and jobs programs in Latin America, and announced expanded initiatives to promote education, healthcare, and housing.

The US leader's speech came just three days before he was scheduled to depart on a March 8-14 tour of the region, with stops in Brazil, Uruguay, Colombia, Guatemala, and Mexico. Some analysts see the trip broadly aimed at countering the influence in Latin America of Venezuelan President Hugo Chavez, a fierce critic of the US, and of boosting the image of the US in the region, which has suffered amid opposition to the war in Iraq. Analysts also note that Bush will address bilateral issues in each country, including an ethanol promotion agreement with Brazil.

Some analysts say that Bush is perceived to be neglecting the region. Inter-American Dialogue President Peter Hakim told reporters Monday he heard from both Republican and Democratic lawmakers on Capitol Hill last week "that we're neglecting, abandoning Latin America, it's sort of going in the wrong direction."

Durango is the first stage of Union Fenosa's focus on Mexico within its bigger business plan," the company said. Union Fenosa said the plant, construction of which should start in June and last two years, will sell power to the CFE under a 25-year agreement. The new plant will

raise Union Fenosa's total installed capacity in Mexico to 2,000 MW, the company said. Its Hermosillo, Tuxpan and Naco Nogales plants have an installed capacity of 1,550 MW. To date, it has invested approximately 1 billion euros in Mexico. Union Fenosa said the Mexican govern-

ment plans to hold competitive tenders to build another four combined cycle gas turbine plants "in the coming months."

Political News

Ecuador's President, Congress Set for Showdown Over Referendum

Political tensions increased in Ecuador on Wednesday after the Andean nation's top electoral court ordered the firing of 57 lawmakers—more than half of Congress—who voted the day before to dismiss the court's president. The Supreme Electoral Tribunal (TSE) said in a statement that it had suspended for one year the "political rights" of the 57 lawmakers who voted to remove TSE President Jorge Acosta, and called Tuesday's vote unconstitutional, Bloomberg News reported. The president of Congress, Jorge Cevallos, shot back that it was the TSE's decision that was unconstitutional and vowed to resist it. "If they want a war, they'll have a war," Cevallos was quoted as telling local television. President Rafael Correa's minister of government, Gustavo Larrea, said Wednesday night the government, through the national police, would enforce the TSE's ruling, setting the stage for a showdown between Correa and Congress in a country that has been wracked by political instability, with three presidents being forced out of office in the last decade. Opposition lawmakers voted Tuesday to fire Acosta because the TSE approved a plan by Correa to hold a national referendum on April 15 to decide whether to convoke an assembly to rewrite Ecuador's Constitution. Opposition lawmakers are concerned Correa will use the assembly to weaken Congress and increase his own powers. Last month, legislators approved Correa's request for the referendum amid street protests by the president's supporters. However, opposition lawmakers say Correa made changes to the referendum text without their approval before handing it to electoral officials. They say the changed version would give the assembly the power to dissolve Congress and want the Constitutional Court to declare the referendum invalid. Correa, a political

outsider who took office in January, is pushing for the referendum as a means to weaken the influence of traditional political parties in Ecuador. [Editor's note: see related Q&A in the February 22, 2007 issue of the daily *Latin America Advisor*.]

Economic News

Free Trade Deal Between the US, Dominican Republic Goes Into Force

A free trade agreement between the United States and the Dominican Republic went into force last Thursday as part of a wider pact with Central American countries, leaving Costa Rica as the only country not to implement the trade agreement. The implementation of the free trade deal as part of an agreement between the US, the Dominican Republic, and five Central American countries, known as DR-CAFTA, will result in duty-free treatment for more than 4,000 imported goods in the Caribbean nation, local daily *Listin Diario* reported. A wide variety of imports of US goods, from chicken breast to lobster, will receive immediate tariff cuts of 10-20 percent, with other reductions to be phased in gradually. The tariff reductions are expected to result in cheaper goods for Dominican consumers and greater investment in the country by companies looking for a duty-free platform to export to the US. However, critics of the deal say it will hurt local businesses unable to compete with bigger US companies. Dominican President Leonel Fernandez said the Dominican Republic had an "historic opportunity through trade, investment, and the development of local industry to definitively transform its economic structure and confront the social problems that we have inherited." The US, the Dominican Republic, and the five Central American countries—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—signed the agreement in August 2004. El Salvador, Guatemala, Honduras, and Nicaragua implemented the agreement last year. Costa Rica is the only country not to, with ratification bogged down in the country's legislature amid strong domestic opposition.

POLITICAL & ECONOMIC BRIEFS

Venezuela's Chavez to Lead Anti-US Rally in Argentina on Friday

Venezuelan President Hugo Chavez will lead a rally in an Argentine stadium on Friday to protest US policies in the region, Reuters reported. The rally at the Ferrocarril Oeste soccer stadium, which can hold up to 40,000 people, coincides with Bush's arrival in Uruguay as part of a five-nation tour of Latin America March 8-14. Jorge Ceballos, an activist who serves as deputy secretary in Argentina's social development ministry and who is organizing the rally, said it is meant as an "alternative message" to US policies in the region.

S&P Raises Colombia Debt Rating

Ratings agency **Standard & Poor's** said Monday it raised Colombia's long-term foreign currency sovereign credit rating to "BB+" from "BB." In a press release, S&P analyst Richard Francis said "the upgrade is supported by Colombia's significantly improved growth prospects and fiscal performance." He added that "further tax and pension reform leading to a more rapid improvement in the government's fiscal prospects and a lighter debt burden would contribute to higher credit-worthiness."

Brazilian Central Bank Lowers Selic by 25 Bps to 12.75 Percent

Brazil's Central Bank on Wednesday cut its benchmark Selic interest rate by 25 basis points to a record low of 12.75 percent, the 14th straight cut by the Bank since September 2005, when the rate stood at 19.75 percent. The rate move was widely expected by analysts as annual inflation appears to be under control in Brazil and is at an eight-year low.

Featured Q&A*Continued from page 1*

asking 60 percent ownership. Remember that PDVSA today is a minority partner with ownership between 30 percent and 49.9 percent, depending on the project. On the other side, firms do not want to lose control of production, development, and marketing if these changes reduce their current profitability. The four projects in the Orinoco Belt produce 0.6 mil-

“If [Chavez] is pragmatic, as he has been in the past, he will negotiate economic returns in exchange for new investment and output increases.”

-*Nelson Altamirano*

lion barrels per day today, and without new investment this output cannot be increased. Given the downward trend in international prices, Chavez needs to increase crude oil output to continue funding his social programs (\$26 billion by 2005), and PDVSA along with the invited national oil companies are not able to do it in the short run. If he is pragmatic, as he has been in the past, he will negotiate economic returns in exchange for new investment and output increases. Firms do not want to leave Venezuela because of the oil potential in the Orinoco Belt, their accumulated experience there, and current high oil prices. The negotiations will be case-by-case and difficult, and the outcome will depend on the evolution of oil international prices.”

A Guest Comment: Carlos Miranda Pacheco: "Without knowing the decree in detail, the news of the obligatory transfer of control of the projects in Venezuela sounds very similar to some measures in the May 1 Bolivian oil nationalization. Among other regulations, the [Bolivian] nationalization

decree introduced the transfer of 50 percent plus one share of two producer companies, Andina S.A. and Chaco S.A., majority controlled by Repsol and British Petroleum, respectively, of transportation company Transredes S.A., currently under the control of Shell and Ashmore, and of Transportadora Logistica Boliviana S.A., controlled by Grana Montero and Manquard y Bahls A.G. to [Bolivian state-owned oil and gas company] YPFB. Up until now, the Bolivian government has given signs of attempting a kind of 'hostile takeover' on the basis of the value of the companies to be made by investment banks that it is thinking of inviting and selecting through an international bidding process. The government has indicated it is disposed to concede general and technical management of the companies to minority partners. The companies have not taken a position yet on whether they would continue as minority shareholders. To date the takeover process has not begun. A first invitation to investment banks has been abandoned and a new one is awaited. The Bolivian government plans to use this method to obtain control of Bolivian refineries that are owned by [Brazilian state-owned oil and gas company] Petrobras. For these reasons and others, as well as the close relations between Evo Morales and Hugo Chavez, there is speculation that Bolivia is being used as a test ground or test tube for nationalization measures.”

Patrick Esteruelas is a Latin America Analyst at the Eurasia Group.

Nelson Altamirano is a Visiting Scholar at the University of California at San Diego's Center for Iberian and Latin American Studies.

Carlos Miranda Pacheco is a La Paz-based private consultant and a former Superintendent of Hydrocarbons in Bolivia.

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