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## LATIN AMERICA ADVISOR | Energy

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

**Q** The value of Venezuelan oil exports reportedly fell 13.2 percent in the first quarter compared to the same period of 2006. What is the significance of the decline? What trends do you see in Venezuelan oil production and exports?

**A** **Board Comment: Luis Giusti:** "The drop in Venezuelan exports during the first quarter of this year is the result of a deliberate move by the government in connection with OPEC's agreed reduction, aimed at putting a floor under oil prices. The precipitous fall from \$78 per barrel in early August 2006 to \$50 per barrel in mid-November 2006 forced OPEC to take action. The agreed reduction plan contemplated 1.2 million barrels per day (bpd) on December 1, to be followed by a second reduction of 0.5 million bpd during the first quarter of 2007. In view of the positive effects of the first segment, the second one was waived. Within the agreement, Venezuela ended up cutting 140,000 bpd, strangely enough in the Orinoco extra-heavy oil projects. It should be noted that for two years Venezuela has fallen short of its OPEC quota by 700,000-800,000 bpd, which makes any cut absurd, let alone a cut in Orinoco, where production comes from upgraded extra-heavy oil. In conclusion, the drop in exports does not reflect any relevant technical problem. The real issue is the huge drop in

Venezuela's total production capacity. Under the current administration, it has fallen by 1.0-2.5 million bpd. But that drop does not entirely reflect the size of the collapse, because new oil in the amount of about 1 million bpd is coming from projects in the Orinoco and in the ex-operational agreements in the charge of the private companies. This means that PDVSA's own production is 1.5 million bpd, reflecting a loss of 1.9 million bpd. Finally, the production in the charge of the private companies is starting to waver as a result of uncertainty and frequent unilateral changes of rules and contracts. Venezuela will continue to be an impor-

*Q&A continued on page 6*

### PHOTO OF THE WEEK



Silas Rondeau resigned Tuesday as Brazil's minister of energy and mines amid allegations his top advisor took a bribe. See [story](#) on page 2.

*Agencia Brasil file photo.*

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## ENERGY SECTOR BRIEFS

**Colombia to Open Bids on Oil Concessions on September 18**

The Colombian government will open bids on concessions to drill in 13 areas along the country's Caribbean coast on September 18, Armando Zamora, director general of the National Hydrocarbons Agency, said Monday, according to Bloomberg News. Winning bids will be declared immediately, Zamora said. Colombia is seeking to increase exploration and production amid a 35 percent decline in output since the turn of the century, Bloomberg News reported, citing figures from the US Department of Energy.

**Head of Citgo Being Transferred to Europe**

Felix Rodriguez, the president and CEO of **Citgo Petroleum Corp.**, the US refining arm of Venezuelan state-owned oil company **PDVSA**, said he is being transferred to head up **Ruhr Oel**, PDVSA's joint venture in Germany with **BP Plc**, Reuters reported on Monday. The move is not a result of a falling out with Venezuelan Energy Minister Rafael Ramirez, and Rodriguez described it as a "promotion," according to Reuters. Rodriguez, who leaves in three weeks, will be replaced by Citgo Chairman Alejandro Granado.

**PPL Sells El Salvador Electricity Business to Ashmore Energy**

**PPL Corporation** announced Friday that it has agreed to sell its controlling interest in a Salvadoran electricity delivery business to **Ashmore Energy International** (AEI). AEI has agreed to acquire indirectly PPL's 86.4 percent interest in **Distribuidora de Electricidad Del Sur, S.A. de C.V.** (DelSur) for \$180 million through a stock purchase agreement.

**Power Sector News****Brazilian Energy Minister Resigns Amid Electricity Program Scandal**

Brazil's minister of energy and mines, Silas Rondeau, resigned Tuesday amid allegations that his advisor took a bribe from a construction company in exchange for contracts under a government electricity program. In a letter of resignation released after a meeting with President Luiz Inacio Lula da Silva, Rondeau, who had been in the post since July 2005, said he was the victim of "lies and insinuations," and denied any wrongdoing, but said he was stepping down to prevent the energy sector from being hurt and the image of the

ranking official in the mines and energy ministry.

**Panama, Brazil Restructurings Help Drive Down AES' Q4 Profit**

US power company **AES Corp.** on Wednesday reported a sharp drop in fourth-quarter profit, due in part to costs associated with strategic restructuring and refinancing initiatives in Brazil and Panama, respectively. In an earnings release, AES said it earned net income of \$51 million in the fourth quarter of 2006, versus \$140 million a year earlier. The company said revenues rose by \$191 million to \$3.1 billion, boosted by the consolidation of a business in the Dominican Republic, and to higher prices and demand primarily in

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*Rondeau came under suspicion after his top advisor was recorded by security cameras accepting what is believed to be a 100,000-real bribe.*

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government from "somehow being affected." Rondeau was the fourth cabinet minister in Lula's government in recent years to step down because of corruption charges, according to the Associated Press. His resignation came after his top advisor, Ivo Almeida Costa, was recorded by security cameras accepting what is believed to be a 100,000-real (\$US 51,348) bribe from an employee of construction company **Guatama** in order to facilitate approval of licenses for a project under Lula's "Electricity for All" program, which aims to provide electricity to remote rural areas, local daily *Folha de Sao Paulo* reported. The scandal is part of a wider police investigation into alleged bid-rigging and corruption involving hundreds of millions of dollars in infrastructure projects overseen by the ministries of planning, transportation, and energy and mines, according to the Associated Press. Many of the projects under scrutiny were overcharged or never carried out, the AP reported. Dozens of suspects in the scheme were arrested last week, including a congressman and a former governor, the AP reported. Rondeau will be replaced by Nelson Hubner, a high-

Latin America, Europe, and Africa, and foreign currency gains. However, AES reported a rise in costs, including a \$101 million jump in "other expense" due to the Brazil restructuring and the Panama refinancing. Latin America utility and generation revenue rose by \$40 million and \$143 million, respectively, to \$1.3 billion and \$711 million.

**Oil & Gas News****Pemex Output Totaled 3.16 Mn Bpd During First Four Months of Year**

Mexican national oil company **Pemex** on Sunday announced that its crude production levels averaged 3.16 million barrels per day during the first four months of 2007, output that generated over \$10 billion in cash flow this year, the company said in a Web site financial release. The figure was down slightly from the same period a year ago. Under CEO Jesus Reyes Heróles, Pemex has warned that falling output, long anticipated to stall as its reserves have been expiring, will be diffi-

cult to make up without adding significant new exploration and production investments. Even with slated investments of \$33 billion per year pumped into replacing reserves by 2012, the company will not likely exceed today's production rates, a Pemex official said at a conference Monday, according to Reuters. "There's not an increase, it's more trying to maintain a plateau," said Guillermo Ruiz, deputy director of strategic planning and operations at Pemex, according to Reuters. While oil production has been flat, gas output climbed in the first months of 2007. In its Sunday financial release, Pemex said that its extraction of natural gas rose 14 percent compared to the same period in 2006, a new record, and that gasoline sales in the country rose 6 percent in the January-April period.

### Brazilian Natural Gas Prices Set to Rise When LNG Imports Start

Brazilian natural gas prices are "a bit out of line" with international market prices and will have to rise when the country starts importing liquefied natural gas, Mauricio Tolmasquim, head of the government's energy research agency, said Monday, according to Bloomberg News. Brazil plans to import about 20 million cubic meters of natural gas starting in 2008 and 2009 from countries such as Nigeria, Trinidad and Tobago, and Algeria, Tolmasquim said. State-controlled oil and gas company **Petrobras** pays about \$4.20 per million British thermal units (BTUs) for gas from Bolivia, which provides about half of Brazil's natural gas needs. On international markets, natural gas is currently selling at \$7-8 per million BTUs, according to Bloomberg News. Brazil is looking to increase natural gas supplies amid growing demand, which Tolmasquim said is increasing at about 15 percent a year.

### Guatemala to Ask Colombia to Supply Oil for Proposed Refinery

Guatemalan Energy and Mines Minister Carmen Urizar said Tuesday she would meet Colombian President Alvaro Uribe in two weeks to seek oil supplies for a proposed 230,000 barrel-per-day refinery,

Bloomberg News reported. Mexico had initially promised to supply all the oil for the refinery, but later said it would only provide 80,000 barrels per day, Urizar stated. At a summit of heads of state from Mexico, Central America, and Colombia last month, leaders agreed to pursue a region-wide oil refinery, to be located in one of the countries. Guatemala is competing for the refinery project with Panama, according to Urizar. **Valero Energy Corp.**, **Reliance Industries Ltd.**, and **China National Petroleum Corp.** have expressed interest in investing in the refinery, the Guatemalan minister said.

### Petrobras Discussing "Strategic Cooperation" With PetroChina

Brazilian state-controlled oil and gas company **Petrobras** is discussing "strategic cooperation" with **PetroChina**, a Petrobras consultant said Tuesday, according to Bloomberg news. The consultant, Henry Barretto, said Petrobras may sign an exploration and refining agreement with PetroChina, China's biggest oil producer, by the end of the year. "PetroChina has many opportunities to work together with us in China, in Asia and in general," Barretto was quoted as saying at the Global Energy Forum in Beijing. On February 1, PetroChina's parent company, **China National Petroleum Corp.**, signed an initial accord with Petrobras to cooperate in exploration, refining, and other areas in China and Brazil. Petrobras is also in talks with the **Export and Import Bank of China** and **China Petroleum & Chemical Corp.** about building natural gas pipelines linking Brazil's northeast and southeast, and with **Cnooc Ltd.**, China's largest offshore oil producer, about potential offshore oil exploration projects. Cnooc's parent, **China National Offshore Oil Corp.**, will offer 22 areas to foreign companies for drilling this year, nine more than in 2006, according to Bloomberg News.

### Venezuela to Create Latin American Oil and Gas Drilling Corporation

Venezuela will create a Latin American oil and gas drilling corporation to serve as an alternative to North American rig opera-

tors, seismic providers, and service firms, Venezuela's ambassador to the United States, Bernardo Alvarez, said Saturday, according to Bloomberg News. "Now there is a lack of engineering and you can't find rigs," Alvarez was quoted as saying at an oil conference in Chicago. "So we will create a Latin American company of oil services. It should be private. It doesn't have to be public." Alvarez's comments came on the heels of an announcement by the Venezuelan government earlier in the week that it would nationalize 18 oil rigs operated by international companies. Venezuela needs 42 rigs during the next several years to proceed with planned exploration work, Alvarez said. Venezuela has already taken control of oil fields away from foreign companies, and is negotiating the takeover of four multibillion dollar heavy oil projects with five foreign firms.



Alvarez  
Venezuelan gov.  
file photo.

## Biofuels News

### Cuba to Upgrade Sugar Refineries to Produce Fuel Ethanol

Cuba plans to upgrade 11 of 17 sugar cane refineries to produce fuel ethanol, Conrado Moreno, a member of Cuba's Academy of Sciences, said Tuesday, according to the Associated Press. Speaking at a conference on renewable energy in Havana, Moreno said the upgrades could give Cuba the ability to produce ethanol for cars within four or five years. The refineries currently produce some 47 million gallons of ethanol per year, but not as fuel. Moreno's comments came despite criticism of countries' plans to invest in ethanol by Cuban leader Fidel Castro, who says production of the fuel, which is made from sugar or corn, will drive up food prices and hurt the poor. [Editor's note: see related Q&A in the May 7-11 [issue](#) of the *Energy Advisor*] Moreno said ethanol produced from sugar cane, the country's biggest crop and one of its leading exports, could bring economic opportunity to some "isolated communities" in Cuba.

## Political News

### Wolfowitz Resigns from World Bank Post; Admits No Ethical Lapse

Paul Wolfowitz, a former architect of the Bush administration's Iraq War who has been for weeks embroiled in an ethics scandal as president of the World Bank, announced his resignation last Thursday. The Bank's board accepted Wolfowitz's insistence that mistakes at the institution over staffing assignments for a woman he was romantically involved with were made in good faith. "He assured us that he acted ethically and in good faith in what he believed were the best interests of the institution, and we accept that," the Bank's executive directors said in a statement. The resignation takes effect on June 30, and the search for a replacement will begin immediately, the Bank said. In a 2,000-word personal statement posted below the board's shorter comment, Wolfowitz also claimed ethical innocence, and recounted recent achievements by the bank, specifically highlighting its work in Africa. "Hopefully the difficulties of the last few weeks can actually strengthen the bank by identifying some of the areas of governance and human resource management where reform is needed," he said. [Editor's note: see Q&A on the World Bank's future in the [May 21](#) and [May 22](#), 2007 issues of the daily *Latin America Advisor*.]

### Chile's Bachelet Announces More Spending on Education, Healthcare

With her popularity flagging and amid continued pressure to increase spending, Chilean President Michelle Bachelet said Monday she would devote more state resources to education and healthcare. In her second annual state-of-the-nation address, Bachelet said the government would lower its budget surplus target from a seven year-old target of 1 percent of gross domestic product to 0.5 percent of GDP, freeing up more money for spending initiatives, Bloomberg News reported. "We're managing our finances well," Bachelet was quoted as saying. "We've calculated that certain risks have subsided." Government Budget Director

Alberto Arenas said the new surplus target would allow the government to raise spending by \$750 million next year, according to Bloomberg News. Spending on education will increase by \$650 million, Bachelet said in her speech. Analysts said the lower budget surplus and increased spending could lead to a pick-up in inflation and higher interest rates. The Socialist president has been under pressure to increase education spending amid protests by high school students fed up with conditions at public schools. The first major protests took place in May 2006, just two months after Bachelet took office, and contributed to a decline in her popularity [Editor's note: see related Q&A in the June 9, 2006 [issue](#) of the daily *Latin America Advisor*]. The president's approval rating, which currently stands at around 40 percent, was also shaken earlier this year amid a public transportation crisis in the capital, Santiago. In March, Bachelet replaced her chief of staff and three cabinet ministers, including the transportation and communications minister, after the introduction of a new public transportation system in Santiago aimed at improving service instead resulted in poorer service. In her speech on Monday, Bachelet said "people have the right to be angry and anguished" about the transportation system and proposed creating a transit authority, the Associated Press reported. She called on Chile's Congress to approve \$290 million for 2,000 more buses and other upgrades, and guaranteed the problems would be solved without raising fares, according to the AP. Despite the problems, Bachelet said her administration had posted some successes in the past year, including 5 percent economic growth, reduced poverty and unemployment, the passage of various women's rights measures, better health services and the signing of trade agreements with several countries. "Let's not allow pessimism to take us off track," she said, the AP reported.

### Colombian Rebel Group Demands Government Scrap FTA With US

Colombia's second-largest guerrilla group said Tuesday it would agree to a cease-fire if the government scraps a free trade

agreement (FTA) with the United States, Reuters reported. In peace talks with the government, the National Liberation Army (ELN) agreed to end its armed attacks, kidnappings, and sabotage activity in exchange for its demands, according to an ELN statement released in Havana, host to the sixth round of peace talks that began in April this year, Reuters reported. "It is necessary to freeze the approval of the FTA because it hurts the sovereignty and future of our nation, and the interests of a majority of Colombians," the ELN was quoted as saying in the statement. The rebel group, which has some 5,000 mem-

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*The ELN has also demanded that the government end all privatization of state companies, such as an oil refinery in the city of Cartagena and 20 percent of state oil firm Ecopetrol.*

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bers, has also demanded that the government end all privatization of state companies, such as an oil refinery in the city of Cartagena and 20 percent of state oil firm **Ecopetrol**, according to Reuters. Colombian President Alvaro Uribe wants the guerrilla group to hand over their weapons, agree to a cease-fire, and free some 500 hostages. Uribe has been lobbying the US Congress to pass the free trade agreement, which his government signed with the US in November last year. The pact faces opposition in the Democrat-controlled Congress, despite a deal reached two weeks ago with Republicans and the Bush administration over the inclusion of labor and environmental provisions in US free trade pacts with Colombia, Panama, Peru, and South Korea. The deal is expected to ease passage of the trade pacts with Peru and Panama, but the Colombia agreement faces more hurdles stemming from Democrats' concerns about Colombia's labor and human rights record. Democrats are also concerned by allegations of government ties with illegal right-wing paramilitaries.

## Economic News

### Ecuador's Economy Minister Says He Will Not Resign

Ecuadorean Economy Minister Ricardo Patino said Wednesday he would not resign over allegations he sought to manipulate the market for the Andean nation's bonds, local daily *El Comercio* reported. "Of course I am not going to resign, because the president and the team of ministers know who we are, and we are not going to abandon honest men and women. We are not cowards," Patino was quoted as saying in Quito in response to a question by a reporter after returning from a trip to Paraguay. Patino has come under scrutiny after a video became public showing the economy minister meeting with foreign investors in February. At the meeting, an unidentified voice is heard proposing to "shock" the market to supposedly generate \$150 million in bond sales at a higher price, according to the Associated Press. In February, Patino announced that Ecuador would miss the deadline for a \$135 million payment on its 2030 because it lacked funds, but two days later the government said it would make the payment on time, raising suspicions that Ecuador was trying to spark sharp fluctuations in bond prices. Patino denies any wrongdoing, saying he rejected the proposal made at the February meeting with foreign investors, and has said he would show the media the entire video to prove his innocence. President Rafael Correa has stood by Patino, calling him an "honest man," according to the AP. Still, Attorney General Jorge German said that he would open an investigation "to see if any offense or crime is discovered." Since taking office in January, Correa has vowed to restructure Ecuador's foreign debt, much of which he says is "illegitimate."

### Colombia Announces New Capital Controls to Curb Peso's Strength

The Colombian government on Wednesday announced capital controls on some foreign investments in a bid to halt a strengthening of the peso, the Associated

Press reported. Starting immediately, foreign portfolio investors will be required to deposit 40 percent of their investments in non-interest-bearing accounts in the Central Bank for six months, Finance Minister Oscar Zuluaga said. The move, aimed at soaking up dollars and discouraging speculative financial transactions, follows similar action earlier this month, when the Bank froze 40 percent of offshore loans and deposits repatriated by local companies. Colombia's peso has strengthened 14 percent against the dollar since the start of the year, more than any other currency in the world, according to the AP. The peso rose to a seven-year high of 1,954 to the dollar on Tuesday. Economists say foreign direct investment is the main force behind the peso's strengthening, which is hurting the Andean nation's export sector. On Tuesday, Colombian President Alvaro Uribe said "the government must defend exporters' revenues, taking measures to avoid speculative capital that continues to erode our exchange rate," the AP reported.

### Mexico's Trade Deficit Widened to \$728 Million in April

Mexico posted a wider-than-expected \$728 million trade deficit in April, bringing the country's year-to-date deficit to \$3.368 billion, the finance ministry said Wednesday. The country's exports totaled \$21.129 billion, an increase of 6.9 percent over April last year, while imports rose 12.1 percent to \$21.857 billion, according to a ministry press release. Non-oil exports, reaching \$18.007 billion, registered 10.8 percent growth, and the value of exports from the country's oil industry declined 11.1 percent to \$3.122 billion. The decrease was due in part to lower crude prices last month—\$2.7 per barrel lower than in the year-ago period—and a decrease in export volumes from 1.833 million barrels per day (bpd) last April to 1.679 million bpd this April, the ministry said. Among Mexico's imports, intermediate goods grew 10.4 percent, consumer goods 19.6 percent, and capital goods 13.8 percent. In related news, the government said Wednesday that in the first quarter foreign direct investment rose 66.4 percent year-on-year to \$6.554 billion.

## POLITICAL & ECONOMIC BRIEFS

### Colombia's Uribe Calls on US Congress to Pass Free Trade Deal

Colombian President Alvaro Uribe on Friday called on US lawmakers to approve a free trade pact with his country despite concerns about a scandal linking his government to right-wing paramilitary groups, the Associated Press reported. A US-Colombia free trade pact remains in doubt despite a recent breakthrough deal on trade between key Democrats and the Bush administration because of Democrats' concerns about the paramilitary ties and the Andean nation's record of violence against trade unionists.

### PAN Candidate Concedes Governor's Election in Mexico

Yucatan state gubernatorial candidate Xavier Abreu, of Mexico's governing PAN party, on Monday conceded defeat to opposition candidate Ivonne Ortega, Bloomberg News reported. Abreu, who had received the support of President Felipe Calderon, won 42.8 percent of the vote compared to 49.7 percent for PRI party candidate Ortega. Abreu's concession may help President Felipe Calderon maintain a majority congressional alliance at the national level with the PRI.

### Evo Morales Calls Capitalism "The Worst Enemy of Humanity"

Bolivian President Evo Morales declared capitalism "the worst enemy of humanity" on Tuesday, blasting multinational companies for provoking conflicts around the world, the Associated Press reported. "The transnational corporations always provoke conflicts to accumulate capital, and the accumulation of capital in a few hands is no solution for humanity," Morales said at a conference in the city of Cochabamba.

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

tant oil producer, but is a prisoner of its current levels with little hope of increasing production."

**A** **Guest Comment: Maria Velez de Berliner:** "World oil prices and Venezuela's heavy crude pricing—lower than OPEC, WTI, and Brent—determine the value of PDVSA's exports. More important than the reported revenue fluctuation, which all oil companies experience, is how Venezuela's government allocates

“PDVSA acts more as a local and regional development bank than an oil exploration and commercialization company focused on increasing onstream capacity and profitability.”

— *Maria Velez de Berliner*

PDVSA's net income. PDVSA projects daily production of 5.8 million barrels per day (bpd) by 2012. It claims reserves of 316 billion barrels, including the extra heavy crude in the Orinoco Magna Reserve Project. To achieve the 2012 target and increase exploration in the Orinoco, PDVSA needs to reinvest in advanced technologies, upgrading of refineries, and in the training and development of its skills pool. This is not happening. Under Chavez's commitment to the 'Nucleus of Endogenous Development' program, PDVSA acts more as a local and regional development bank than an oil exploration and commercialization company focused on increasing onstream capacity and profitability. PDVSA's mandated administration of the Social and Economic

Development Fund (Fondespa) obligates it to participate in public works and social development, thus engaging in quasi-governmental activities. In addition, PDVSA's revenue subsidizes oil shipments to Cuba and Central America, cheap gas in the US, and public transport in London; enables Chavez to purchase government bonds floated by Ecuador, Argentina, and Uruguay; and finances pipelines, refineries, and other projects in Bolivia, Brazil, Argentina, Colombia, Ecuador, and Paraguay. With the exception of its association with Petrobras, known for its advanced technology and managerial savvy, PDVSA's agreements with Gazprom, Petropars, Ecopetrol, and Sinopec in Venezuela, and expansion into China, Russia, and India, leave PDVSA in need of technology advances and a large pool of highly skilled management. This will translate into higher costs as the company attempts to produce more without the required technology, and decreases in production as mature fields come offstream. The Orinoco Magna Reserve Project, Venezuela's shining promise, demands advanced technology and highly trained petroleum engineers. PDVSA lacks both. If this continues, the adverse consequences will be reduced exports due to insufficient upstream capacity."

**Luis Giusti** is a member of the Energy Advisor board, a Senior Adviser at the Center for Strategic & International Studies, and a former Chairman and CEO of PDVSA.

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