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Inter-American Dialogue

LATIN AMERICA ADVISOR | Energy

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

Q A nationwide blackout in Colombia last Thursday, attributed to a technical problem, may have Colombians wondering about the reliability of the supply of electricity in their country, especially since it took place just months after a similar, albeit smaller, blackout. What's troubling Colombia's power sector? Are more blackouts in store? Are businesses investing in Colombia worried about the reliability of the power supply?

A Guest Comment: Richard Francis: "The latest blackout appears to have been due to technical failures as a result of human error. The good news is that in the past, most of the problems with the electricity grid happened because of terrorist attacks, as terrorist groups directly targeted electricity towers and stations. The last such attack was in September 2005 when the FARC attacked five electricity circuits in the south of the country, which left 2 million people without electricity in Putumayo, Cauca, and Nariño. The improved security has lowered the number of these attacks substantially over the past four years. However, the electricity sector and government must respond to the latest problems by improving the system of prevention and control to make sure that problems like this do not occur in the future. If it is not addressed, similar blackouts could happen in the future and could therefore become a much larger issue for investors. In terms of investment, Colombia has seen a boom over the last three years. Overall investment in terms of GDP has risen from a low of under 13 percent of GDP in 2000 to nearly 27 percent at year-end 2006. It is expected to continue to grow in the double digits in 2007, putting it at levels similar to countries such as Thailand and Chile. Opinion surveys by ANDI, an industrial association, about business sentiment do not list reliability of the power supply as one of their primary concerns nor even the security situation. In fact, of the top three problems they listed were the cost of primary

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PHOTO OF THE WEEK

Bolivia signed 44 agreements with private companies Wednesday, in effect nationalizing its oil and gas sector. See related story on page 2.
Photo: Bolivian presidency.

Inside This Issue

ENERGY SECTOR BRIEFS

Pemex Reports Loss in First Quarter on Lower Exports

Mexican national oil company **Pemex** said Wednesday its total sales fell 6 percent in the first quarter of 2007, to 235.9 million pesos ($US 21.59 million). That figure meant a net loss of 10.1 billion pesos, as lower exports and prices, and higher costs, hurt results. The price of Mexican export crude fell 5.5 percent in the first quarter of the year, Pemex said. The first-quarter loss compared with a net profit of 8.1 billion pesos in the same period last year, Bloomberg News reported.

Petrolifera Names Bibby New Chief Financial Officer

Canada's **Petrolifera Petroleum Limited** on Tuesday appointed Kristen J. Bibby its vice president of finance and chief financial officer, effective May 15. Bibby replaces Richard R. Kines, who has served as interim chief financial officer of the company since its formation. Most recently, he was controller of **Bow Valley Energy Limited**, a public Canadian oil company engaged in international activity, and has experience in Argentina and Ecuador. Petrolifera's operations are in Argentina, with exploratory interests in Colombia and Peru.

Brazil, Chile Deepen Ties with Nine Cooperation Agreements

Brazil and Chile deepened ties on Thursday with the signing of nine cooperation agreements in areas such as energy, tourism, and education. Chilean President Michelle Bachelet said the accords, signed during a visit to Santiago by her Brazilian counterpart, Luiz Inacio Lula da Silva, "reflect the tremendous affinity that our countries have achieved."

Oil and Gas News

YPFB Takes Over Control of Bolivia's Oil and Gas Resources

Bolivian national energy company **YPFB** took control on Wednesday of the country's oil and gas industry through the signing of 44 contracts with international investors. According to reports, a dozen oil companies, including Spain's **Repsol YPF**, **British Gas,** France's **Total**, and Brazil's **Petrobras**, signed the new contracts. YPFB, formerly a small administrative company in the Andean country, is now in charge of some of the largest natural gas reserves in the world and critical pipelines to neighboring countries. With just a year to prepare for the hydrocarbon nationalization, which was decreed by President Evo Morales last May, analysts initially thought YPFB would have a difficult time running such complex projects. [Editor's note: see related Q&A in the May 9, 2006 issue of the *Energy Advisor*.] The 44 new contracts will earn the country $1.64 billion this year, according to a statement posted on the Bolivian government's Web site. The government said Tuesday that under the previous contracts, negotiated in the administration of ex-president Gonzalo Sanchez de Lozada between 1993 and 1997, the nation would have brought

President Evo Morales (L) meeting with foreign investors on Wednesday in La Paz.
Photo: Bolivian presidency.

in only $328 million to state coffers annually. The negotiations dragged out until the last possible moment. On Monday, Petrobras said it was making progress in negotiations to sell its two refineries in Bolivia, but said the government wanted to pay book value, while Petrobras wanted to receive "near market prices." The Bolivian government released no details, as of Wednesday, on the specifics terms of the 44 contracts.

Venezuela Assumes Management of Heavy Oil Projects

President Hugo Chavez on Tuesday declared an end to Venezuela's "perverse" 1990s liberalization of its oil sector after the government seized operational control of four heavy oil projects. Backed by troops, workers moved to occupy the installations in Venezuela's Orinoco belt, while Chavez led a rally of thousands of red-clad workers to celebrate the event, calling the takeover a blow to US imperialism. "Today, finally we have buried 10 years of a perverse process that was called oil liberalization," Chavez said, according to a press release posted on the Web site of state-owned oil company **PDVSA**. "Oil liberalization was nothing more than an attempt by imperialism to become forever owner of the biggest oil reserve in the world." Chavez had vowed to seize control of the heavy oil projects, in which foreign oil companies such as **Chevron, ExxonMobil,** and **ConocoPhillips**, have invested billions of dollars, by the symbolically important May Day labor holiday. While the companies agreed to comply with Tuesday's deadline, negotiations of the terms of the takeover, in which PDVSA is to have a minimum 60 percent stake in each of the four projects, are ongoing, with a deadline of June 26 for their completion. Chavez has invited the companies to stay on in the projects as minority partners. [Editor's note: see related Q&A in the March 7, 2007 issue of the *Energy Advisor*.]

> "Today, finally we have buried 10 years of a perverse process that was called oil liberalization."
>
> *— Hugo Chavez*

Venezuela to be Sole Supplier of Allies' Energy Needs—Chavez

Oil-rich Venezuela will supply 100 percent of the energy needs of its allies belonging to the Bolivian Alternative for the Americas (ALBA) trade bloc, Venezuelan President Hugo Chavez promised Saturday, according to the Associated Press. Speaking at a weekend summit of bloc leaders in Caracas, Chavez said his country, the world's fifth-biggest exporter of crude, would be the sole supplier of energy to Cuba, Nicaragua, and Bolivia, all of which have joined ALBA since its creation in 2004 as a counterweight to the US-backed Free Trade Area of the Americas, which Chavez describes as an effort by Washington to dominate the Hemisphere. Chavez said Venezuela will

Chavez said his country will be the sole supplier of energy to Cuba, Nicaragua and Bolivia.

also guarantee 100 percent of Haiti's energy needs. "The time has come for this oil, this energy, these resources to in some way serve the development and happiness of our people and the union of our territories," Chavez was quoted as saying. Chavez and other leaders signed agreements under which Venezuela will supply fuel under preferential terms and participate with other countries in joint projects in education, telecommunications, mining, and other areas, the AP reported. Under the preferential terms, ALBA member nations will be able to finance 50 percent of the bill for fuel bought from Venezuela under low-interest loans, and 25 percent of the total bill will go into a special fund to support local projects through loans, Chavez said. The Venezuelan leader said his country hopes to gradually sell off its seven refineries in the United States and build a new network of refineries in Nicaragua, Haiti, Ecuador, Bolivia, and Dominica, as well as refurbishing Cuba's Cienfuegos refinery, to provide a stable supply of oil to Latin American countries. In addition, Chavez proposed the creation of a regional bond to raise money for social spending in ALBA nations.

The Dialogue Continues

How Does Wind Energy Stack Up in Latin America?

Q Worldwide installed wind power capacity nearly quadrupled between 2000 and 2006 to 74,000 megawatts, and is forecast to more than double over the next four years, according to the World Wind Energy Association. What is the potential for growth of wind power in Latin America? Where does wind power stand in the region compared to other alternative energy sources?

A Guest Comment: Fernando Cuevas: "Just one country (Costa Rica), since 1996, has been taking advantage of wind energy in a commercial way. Current installed wind capacity is 69 MW, divided between two projects that were developed, one by the private sector and the other by public electricity company ICE. Around 3 percent of the electrical energy produced in Costa Rica has its origin in wind, representing 0.75 percent at the level of Central America. Potential wind energy in the region is around 3,000 MW. Currently, about 25 projects have been identified, with a capacity of 600 MW, which have mostly been licensed and are in the feasibility stage. It is believed that by 2010 another 100 MW will be incorporated into electricity networks, distributed in three countries (Costa Rica, Guatemala, and Nicaragua). With regard to other renewable sources, it should be noted that wind energy represents a small fraction in comparison to water resources, which continue to represent the preferred renewable energy option for future electricity projects."

"... Potential wind energy in the [Central American] region is around 3,000 MW."

— Fernando Cuevas

Fernando Cuevas *is Chief of the Energy and Natural Resources Unit at the United Nations' Ecnomic Commission for Latin America and the Caribbean.*

Editor's note: The above is a continuation of the April 2-6, 2007 issue of the Energy Advisor.

Correa Says He Plans to End Exploitation of Workers

Ecuadorean President Rafael Correa said Tuesday he plans to curb exploitation of workers by multinational companies and reduce the number of contract workers employed by the government, Reuters reported. "We allow multinationals with lots of capital to exploit us and choose a country that offers them more advantages ... That has to end," Correa was quoted as saying in a speech to workers to mark the May Day labor holiday. Major foreign companies operating in Ecuador include firms such as Spain's **Repsol** and Brazil's **Petrobras**. Correa, who took office in January, has vowed to renegotiate contracts with oil companies in Ecuador, the fifth-largest producer of crude in South America. In his speech on Tuesday, Correa also branded as "shameless" the practice of hiring contract workers who are not provided with health insurance or adequate working conditions. His speech came amid threats by thousands of contract workers employed by state-owned oil company Petroecuador to strike this month if the government does not improve working conditions. In his speech, Correa also promised to extend the minimum wage to all workers in Ecuador, and called for the creation of a regional labor code in Latin America to

Colombia Q&A

Is the US-Backed Plan Colombia a Failure?

Q In a recent letter to a US senator, the Bush administration's drug czar, John Walters, said that cocaine prices in the United States have decreased while cocaine purity has increased, a sign—some say—that the US-backed counterdrug campaign in Colombia, which supplies 90 percent of the cocaine in the US, is not working. Is Plan Colombia a failure? Do you see imminent changes in the US' approach to counternarcotics policy in the region?

A Anne Patterson: "Let me be clear that everyone who works in the counternarcotics field would have liked to see much more rapid progress in the United States than we have seen to date. You do not have to be a drug expert but merely a parent to know that drugs are readily available in the United States. Still, we should remember where we started with Plan Colombia. Drug cultivation in Colombia doubled between 1997 and 2001, threatening to swamp our treatment programs with cheap cocaine—and there is no question that price is a factor in US drug use. Again, it simply makes sense to me that our drug problem would have been much worse—and the number of users much higher—if even a fraction of the cocaine that has been eradicated and interdicted in Colombia had been allowed to come to the United States."

A Bruce Bagley: "The recently published cocaine price and purity data provide incontrovertible proof (for a market-based American society) that the US-backed Plan Colombia has failed to control the availability or price of cocaine in US illegal drug markets, as it was initially intended to do. Moreover, the increasing purity of cocaine on the streets of the US, along with evidence that coca production is on the rise elsewhere in the Andes and that cocaine consumption continues to expand in both Latin America (Brazil) and in Europe (Spain) indicates that Plan Colombia has become obsolete. The US cannot abandon Colombia or its fight against the 'narcos' and armed actors that live off the cocaine trade, but it is long past time to rethink Plan Colombia and move to programs that actually work. Instead of interdiction and supply-side control programs that cost a lot and do not work well, the US should invest in prevention, education, treatment, and rehabilitation at home, and in alternative rural development and institution building in Colombia and neighboring countries. It should also seek to work more closely with the European Union countries that have recently shown renewed signs of cooperating with Colombia."

Anne Patterson *is US Assistant Secretary of State for International Narcotics and Law Enforcement.*

Bruce Bagley *is Associate Dean of the Graduate School of International Affairs at the University of Miami.*

Editor's note: See additional commentary in the May 1, 2007 issue of the daily Latin America Advisor.

halt competition among neighbors, according to Reuters.

Ecuador's President Boosts Military Powers to Remove Oil Protesters

Ecuadorean President Rafael Correa said Friday he would sign a decree to give the police and military greater power to break up protests that disrupt production at oil facilities, Reuters reported. While expressing sympathy for the plight of poor residents in Ecuador's oil-rich Amazon jungle region, where many of the protests take place, Correa said the rule of law had to be upheld to protect the main source of Ecuador's income. "We will not allow any more invasions of oil installations or the blockage of roads," Correa was quoted as saying while visiting the Amazon. The decree will allow for a greater presence of police and soldiers at oil facilities and allow security forces to remove protesters by force, according to Reuters. Last month, protesting villagers, seeking a greater share of profits from companies drilling in their jungle region, blocked production of Brazil's **Petrobras** for about four weeks. Some Indian groups want Correa to consider nationalization of the Andean nation's oil sector. Correa has promised to renegotiate oil contracts with foreign companies in Ecuador.

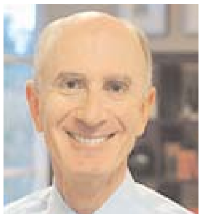
> *"We will not allow any more invasions of oil installations or the blockage of roads."*
> *— Rafael Correa*

Power Sector News

Mirant Sells Caribbean Assets for $1.08 Billion to Marubeni

Atlanta-based **Mirant Corporation** announced last week that it has entered into a definitive purchase and sale agreement with a subsidiary of Japan's **Marubeni Corporation** for the sale of its Caribbean business for $1.08 billion, which includes related debt of approximately $350 million, power purchase obligations of approximately $153 million, and estimated working capital at closing. The net proceeds to Mirant from the sale are expected to be approximately $565 million after payment of transaction costs estimated to be approximately $14 million, Mirant said in a press release. The transaction is expected to close by mid-2007 after the satisfaction of various conditions to closing. Mirant's Caribbean business includes controlling interests in two integrated utilities, **Jamaica Public**

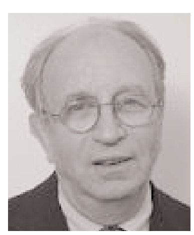
Service Company (JPS), of which Mirant owns 80 percent, and **Grand Bahama Power Company** of which Mirant owns 55 percent. Mirant also owns 39 percent of **PowerGen**, the owner and operator of three power plants in Trinidad, 25 percent of **Curacao Utilities Company** which provides electricity and other utility services and a $40 million convertible preferred equity interest in **Aqualectra**, an integrated water and electric company in Curacao. "We have valued doing business in Curacao, Grand Bahama, Jamaica and Trinidad," said Edward R. Muller, chairman and chief executive officer of Mirant. "We wish the people of all four countries and Marubeni Corporation great success." In Jamaica, Mirant has experienced problems, however, as higher costs for fuels used to make electricity, coupled with nagging service problems and ongoing union negotiations, have prompted a consumer backlash. On Tuesday, the unions representing the approximately 1,500 disgruntled workers at the light and power company, struck a compromise that averted a strike that could have created "widespread disruptions in the country's electricity supply," the *Jamaica Observer* reported. The company has yet to settle a dispute over an employee reclassification and pay review, pending since 2002. The unionized workers, who were upset with what they said was the "company's delaying tactics", called on JPS to implement an arbitrator's wage recommendations before Mirant hands over control to Marubeni later this year.


Edward R. Muller, chairman and CEO of Mirant
Photo: Mirant Corp.

Political News

Suspended Lawmakers Barred From Returning to Ecuador's Congress

Stick-wielding protesters in Ecuador prevented suspended lawmakers from returning to Congress on Wednesday, Reuters reported. With hundreds of police ringing the Congress building, protesters shouted "rats" at the lawmakers while throwing sticks at their cars and stabbing their tires. Continued clashes are expected, as one of the suspended lawmakers, Sylka Sanchez, vowed they would attempt to return to Congress every day. Last Tuesday, President Rafael Correa sent police to surround Congress and prevent some 50 of 57 suspended opposition lawmakers from reassuming their posts, in defiance of a ruling the day before by the Constitutional Court, Ecuador's top judicial body. Correa and the suspended lawmakers have been locked in a standoff in recent weeks over a proposed assembly to rewrite Ecuador's Constitution. In March, the Electoral Court approved Correa's request that the assembly have unlimited powers, including the ability to fire legislators. Congress responded by voting to fire the president of the Electoral Court, which in turn ordered the suspension of the 57 lawmakers. Voters approved the assembly in an April 15 referendum, but the national political scene as become anything but quiet since the vote. Peter Hakim, the president of the Inter-American Dialogue, told the *Advisor* that "Ecuador seems once again headed toward political chaos. Every institution—including the president, the Congress, the Constitutional Court, and the Electoral Tribunal—seems to think of itself as the ultimate arbiter of the Constitution and rules of politics, and all of them are serving their own narrow interests in exercising power," Hakim said. "No system of government can withstand the lack of agreed-upon procedures and the unwillingness of participants to accept compromise," he added. Hakim said that the Organization of American States (OAS) could make an "important contribution to untangling the clutter and avoiding a potentially tragic outcome." But he said that the OAS needs the support of key member states, which has not been fully forthcoming, and the willingness of the various Ecuador actors, who have not shown great responsibility or commitment to to the rule of law so far, to accept its authority."


Hakim

ECONOMIC BRIEFS

Annual Inflation in Venezuela Hit 19.4 Percent in April

Venezuela's consumer prices, especially for food and health services, rose 1.4 percent in April, bringing the country's annual inflation rate for the 12 months through April to 19.4 percent, the highest rate in Latin America, Bloomberg News reported on Tuesday. Annual inflation through March was lower, at 18.5 percent.

Banco de Mexico Hikes Interest Rate in Unexpected Move

In a surprise move, Mexico's central bank on Friday raised its overnight benchmark lending rate by a quarter of a percentage point to 7.25 percent, the first increase in almost two years, Bloomberg News reported. Banco de Mexico is seeking to contain inflation, which has remained above its target range of 2 to 4 percent in six of the last seven months with high food prices.


Mexican Central Bank Governor Guillermo Ortiz
Photo: Government.

Panama to Start Taking Bids for Canal Expansion Next Month

The Panama Canal Authority said Friday it will start receiving bids in early May for the first phase of a $5.2 billion expansion of the interoceanic passage, an expansion that was approved by a popular referendum in the country last year, Reuters reported. With work set to start around the end of this year, the first contract will be to dig a four-mile dry canal, according to Jorge Quijano, an engineer in charge of the expansion project.

Featured Q&A
Continued from page 1

materials, overall demand, and the foreign exchange rate (the appreciation of the peso). Foreign direct investment has boomed as well, reaching over $6 billion in 2006. FDI is likely to continue to remain robust over the next few years with or without a free trade agreement with the United States."

A **Guest Comment: Jorge Lara-Urbaneja:** "Indeed, there was a blackout in Colombia a week ago, but it was not a technical but a human failure. As a result, Colombians wonder not about the reliability of the power infrastructure, but about the preparation and capability of the people running the system. Several years ago, when El Niño hit Colombia, there were country extensions, starting from the capital Bogota, that suffered several-hour blackouts daily, whereas other regions had no restrictions. The concern then was what should be done in order to evenly distribute electricity throughout the whole territory in case of another emergency. The answer was to put in place national interconnectivity, which took a good deal of time to set up. In the most recent event, a human error made national interconnectivity work backwards. Instead of distributing the flow throughout the country, it turned off the national power system, and service was not restored within one hour, as designed, but in over half a day. It is remarkable, however, that Colombians, in particular the residents of large cities, adjusted themselves to the problem in a very civilized fashion. The police did what they could and vehicular traffic cleared in spite of a lack of street lights. In summary, there were no major events to complain about at the end of the experience. Had this blackout been the result of sabotage from violent people, we would know that by now. The Colombian power system clearly requires substantial work and modernization, particularly because the country's regulatory environment has not been updated. A regulatory readjustment would attract true long-term investments in the sector, but this case does not help in that direction."

> "The Colombian power system clearly requires substantial work and modernization ..."
>
> *— Jorge Lara-Urbaneja*

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