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### FEATURED Q&A

#### Can Argentina Spur Investment in its Oil and Gas Sector?

**Q** Last week, Argentine President Cristina Fernandez announced "Petroleum Plus," a tax-break program for oil companies that the government says will result in \$8.6 billion in new investment in the energy sector. Will "Petroleum Plus" be effective in convincing companies to invest in Argentina and increase their production and refining capacity? Are the government's claims that the program won't put a strain on the budget accurate?

ment has responded to this scenario by announcing new programs that will allow producers to improve the returns that will be obtained from new investments. The programs include the already existing 'Gas Plus' for natural gas production projects, the recently announced 'Petroleum Plus' for crude oil and 'Refining Plus' for new investments in refining capacity. Although helpful, these new programs may be insufficient for certain high cost projects in

*Q&A continued on page 3*

**A** Guest Comment: José Martínez de Hoz Jr.: "Export taxes, export restrictions and other regulations imposed since 2002 produced a huge transfer of wealth from the upstream energy sector to the industries and consumers. The deregulated energy regime of the nineties was strongly affected by increasing government interference. The measures taken since 2002 triggered a huge growth in the domestic demand for natural gas, and strongly discouraged investments, resulting in a significant decline of crude oil and gas production and reserves. Certain recent events suggest that the artificially depressed domestic crude oil prices are gradually beginning to fall in line with international prices. Moreover, the use of export taxes to artificially reduce domestic prices will predictably meet an end in the short future if Argentina as expected becomes a net importer of crude oil. The federal govern-



#### China Will Fund Expansion of Costa Rica Refinery

Costa Rican President Oscar Arias (R) welcomed Chinese President Hu Jintao on Monday, a year and a half after opening diplomatic relations with China. See brief on page 2.

*Photo: Costa Rican Government.*

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## ENERGY SECTOR BRIEFS

**China Will Fund Expansion of Costa Rica Refinery**

China and Costa Rica said on Monday they will collaborate on the expansion of Costa Rica's only refinery, reported Reuters. The deal between Chinese state oil company **CNPC** and Costa Rica's refinery company **Recope** aims to increase production from 25,000 barrels per day to 60,000 and also includes a feasibility study for a new refinery capable of producing 200,000 bpd. China will fund half the project's \$800 million to \$1 billion price tag and loan Costa Rica the remainder.

**Bolivia Seeks New Oil Law, Loans \$1 Billion to YPFB**

The Bolivian government on Wednesday said it will submit a new oil law with a package of legislation to be passed before the referendum on the new Constitution in January 2009, reported EFE. The new legislation would replace the hydrocarbons law of 2005, but no details were made available. Bolivia's Finance Minister Luis Arce said Wednesday the central bank would offer a \$1 billion loan to state oil company **YPFB** in order to overcome fuel shortages plaguing the country, reported the Associated Press.

**Brazil's Eletrobras Plans to Issue \$1 Billion of Debt in 2009**

Brazil's **Eletrobras**, Latin America's largest utility, will seek \$1 billion in debt financing in 2009, reported Bloomberg News. CFO Astrogildo Fraguaglia Quental said that due to tough market conditions the company would probably not be able to sell \$400 million in bonds planned for this year but would "take the matter up again in 2009" in order to raise capital in the medium to long-term.

## Oil & Gas News

**Vietnam and Venezuela Sign MOU for \$11.4 Billion in Joint Oil Projects**

In a visit by Vietnamese President Nguyen Minh Triet to Venezuela this week, the two countries signed a memorandum of understanding for joint development of oil projects, including plans for a refinery with a capacity of 200,000 barrels per day. The new installation will refine heavy crude in Venezuela's Orinoco Belt, where Venezuelan President Hugo Chavez has urged development of oil projects through joint ventures with state oil companies from around the globe. Chavez welcomed his Vietnamese counterpart, saying "in Venezuela we very much admire Vietnam, and we believe that this alliance will strengthen our peoples in every area," according to a Web site statement by state oil company **PDVSA**. The 25-year deal for joint exploration and production will cost an estimated \$11.4 billion, Dinh La Thang,



Chavez greets Vietnamese President Triet.

File Photo: ABN.

the chairman of state-owned **PetroVietnam**, told local newspaper *Thanh Nien*. "Almost \$5 billion, or 40 percent, will come from PetroVietnam and Venezuela will fund the remaining 60 percent," Thang said. Of the total cost, nearly \$4 billion would go toward building the new refinery, which would refine the Orinoco heavy crude so it could be shipped to Vietnam for further processing.

**Uruguay to Take Bids for Offshore Drilling**

Uruguay next month will start accepting bids from energy companies to drill for

natural gas and oil off the country's Atlantic coastline, Reuters reported on Tuesday. Uruguay, which currently imports all its fuel, has begun considering the possibility of energy independence since the recent find near the resort of Punta del Este. "Somewhere out there we could have nearly 2 trillion cubic feet of gas and there are some pretty interesting signs of oil," said Energy and Industry Minister Daniel Martinez. "But until we drill, we won't know if it's possible." Energy firms will be able to submit bids until July. Brazil's **Petrobras** and Spain's **Repsol** are among the companies that have signaled interest in the project, said Martinez. He said drilling could begin at the earliest in eight years, and that it would take an additional three years to determine whether the deposit has commercial possibilities. **Ancap**, Uruguay's state energy company, buys approximately one million barrels of crude every 25 days, Martinez said. The country's energy needs have increased over the past five years. In 2007, energy demand increased 7.6 percent.



Martinez

Photo: Uruguayan Gov't.

**Eni Signs Partnership Agreements With Colombia's Ecopetrol**

Italian oil and gas company **Eni** on Thursday said it has signed two agreements with **Ecopetrol**, Colombia's state-controlled oil company. The first agreement will enable Ecopetrol to farm into Eni's current US Gulf of Mexico exploration portfolio, the company said in a press release. Ecopetrol will be assigned a 20 to 25 percent working interest on at least five wells to be drilled by December 31, 2012. Under the terms of the agreement, Ecopetrol will invest and carry a portion of Eni's drilling costs for a total in excess of \$220 million. The second agreement is a memorandum of understanding aimed at increasing cooperation between Eni and Ecopetrol. The companies will create of a joint team to evaluate further farm-in opportunities for Ecopetrol from Eni's exploration portfolio. Ecopetrol will

also offer Eni access to opportunities in Colombia and other South American countries. Eni said the agreements will help Eni to manage and diversify the risk of its exploration portfolio. In the Americas, Eni currently owns lease interests in 408 blocks within the US Gulf of Mexico, 70 percent of which are located in deepwater. In addition, the company owns lease interest in 173 licenses in the North Slope of Alaska. In South America, Eni carries out exploration and/or production activities in Venezuela, Trinidad and Tobago, Ecuador, Brazil and Argentina.

## Power Sector News

### AES Shareholders in Chile Approve Capital Increase Plan

Shareholders of Chile's **AES Gener** have cleared the electricity generating company to issue \$239 million in new shares in order to finance expansion projects, Reuters reported Wednesday. AES Gener, a subsidiary of US-based AES, said the company will issue 945 million shares at 162.50 pesos each. AES currently has seven projects underway that will allow it to hike its installed capacity from its current level of 3559 MW to 5048 MW. "This operation will finance a portion of the investment requirements of the projects that the company currently has under construction," said AES Gener's general manager Felipe Ceron. The company, which also has a unit operating in Colombia, is part of Chile's Central Interconnected System, which supplies electricity to the most densely-populated area of Chile. The country's electricity sector has suffered this year because of drought, high oil prices and low levels of natural gas shipments from Argentina. However, recent rains and the drop in oil prices have given some relief.

## Biofuels News

### Brazil, US Announce Expansion of Biofuels Cooperation

Brazil and the United States on Thursday announced an expansion of their agree-

### Featured Q&A

*Continued from page 1*

light of the recent collapse of international prices. Further, the programs are still missing the transparency and stability needed to attract long term new investments in the global economy."

**A Guest Comment: Luciano Gremon:** "In an attempt to promote new investments in the oil and gas sector, the Argentine Government has recently announced the 'Petroleum Plus Program.' At this point, we consider the success of this program as uncertain. Although the final details are still pending (no official resolution or decree has been published yet), the mechanics of this new program are expected to be similar to those of the previous 'Energy Plus' and 'Gas Plus.' In a nutshell, the government would offer price and/or tax incentives for companies increasing supply to the

ment to cooperate on biofuels that was signed last year. The US State Department said in a press release that the revised memorandum of understanding (MOU) would advance their shared goals of energy security, sustainable development, and environmental protection. The US Secretary of Agriculture, Ed Schafer, and Brazilian Foreign Minister Celso Amorim met earlier this week at the International Biofuels Conference in Sao Paulo, Brazil, where they unveiled plans of the two governments to expand scientific collaboration in biofuels and to work with five new countries in Africa, Central America, and the Caribbean interested in developing their domestic biofuels industries. The new partnerships involve Guatemala, Honduras, Jamaica, Guinea-Bissau, and Senegal. Along with the Dominican Republic, El Salvador, Haiti, and St. Kitts and Nevis, a total of nine partner nations will now benefit from US-Brazil biofuels collaboration, according to the statement. In the initial tranche of countries, the United States, Brazil, and MOU partners (IDB, OAS, and the UN Foundation) have pledged over \$4.3 million across twelve projects that are underway. "All partners

market. These incentives are positive because they would probably improve the economics of the industry which would likely result in increasing production in mature basins and the development of some greenfield projects. Nevertheless, we consider that although positive, price incentives would also require a stable and predictable regulatory framework in order to boost investments in the sector. These conditions become more relevant as oil prices are decreasing and financing, particularly for large projects (e.g., new refineries), is very scarce."

**A Guest Comment: Juliette Kerr:** "The 'Petroleum Plus' program is unlikely to be as effective in attracting new investment as tackling the underlying distortions in the market would have been. Oil companies would no doubt have preferred to see

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are working to develop local biofuels industries to reduce dependence on imported fuels and promote sustainable development," the State Department release noted. Officials from 40 countries were expected to participate in the biofuels conference this week, which Brazilian government chief-of-staff Dilma Rousseff opened on Monday. [Editor's note: see related Q&A in the April 24, 2008 [issue](#) of the *Energy Advisor*.]

## Political News

### At Least Five Injured During Clashes in Managua Over Election Results

At least five people were injured Tuesday as supporters and opponents of Nicaragua's ruling party clashed over the country's disputed local election results, the Associated Press reported. Thousands of backers of President Daniel Ortega's Sandinista party hurled rocks at supporters of the opposition Constitutionalist Liberal Party who were marching through the capital to protest what they claim are fraudulent results of the November 9

municipal balloting. At least three protesters and two police officers were hurt in the ensuing confrontation. The country's electoral authorities declared Sandinista candidates the winners of most of the mayoral contests, including in Managua, but opponents allege there was electoral fraud. [Editor's note: See related Q&A in the November 18, 2008 [issue](#) of the daily *Latin America Advisor*.]

### Interpol Sends Agents to Mexico to Probe Potential Leaks

In the wake of the arrest of Interpol's top police official in Mexico, the international police agency will send a team of agents to Mexico to investigate whether any of its information on terrorists and criminals got into the hands of drug cartels, Interpol said Wednesday, according to the Associated Press. The team of agents is expected to arrive in Mexico today. Interpol's action comes after top Mexican police official Ricardo Gutierrez Vargas was arrested in connection with a probe of police who allegedly shared law enforcement information with drug traffickers. Gutierrez Vargas, who is on house arrest, had directed Interpol's National Central Bureau in Mexico and had access to the sensitive database. Officials from Interpol's General Secretariat office are scheduled to meet with authorities in Mexico to determine if any information from the database was compromised. The international police agency is standing behind Gutierrez Vargas. "Interpol can categorically state that it has never been given any reason to question the integrity of Mr. Gutierrez Vargas," the agency said.

## Economic News

### Ecuador Government Commission Recommends Partial Debt Default

A presidential commission in Ecuador recommended Thursday that the country default on a portion of its foreign debt. The commission said it found "illegalities and illegitimacies" in debt contracts and said the state should refuse to make payments on nearly 40 percent of its debt, the Associated Press reported. The find-

ings come less than a week after President Rafael Correa said that Ecuador's debt may be "illegitimate." After the report was released, Correa said he would attempt to stop repayment, but he did not officially declare a default. The audit says the government should default on \$3.9 billion of debt that was issued during a debt restructuring plan in 2000, and accuses US investment banks and former Ecuadorean officials of profiting during the debt restructuring. A \$30.6 million interest debt payment had been due November 15, but the country delayed the payment, saying it would use its 30-day grace period to examine the legitimacy of the debt. Correa has been threatening a default since his 2006 campaign for president. Correa says reimbursing bondholders should be the responsibility of the former government officials and banks that were involved in the debt restructuring plan.

### Colombia Declares Emergency to Crack Down on Pyramid Schemes

Authorities in Colombia declared a state of emergency Monday as they vowed to crack down on pyramid schemes that swindled millions of victims out of their life savings, the Associated Press reported. Schemes offered payouts of up to 150 percent a month. Rioting broke out when one company, **Proyecciones DRFE**, collapsed as news spread that its owner had left Colombia. Investors had sunk \$270 million into the operation. Colombian government leaders shut down the remaining alleged schemes and promised to repay the poorest victims. Officials also said they will increase prison terms for those convicted of illegally taking investors' money. Despite government warnings against the schemes, the clients of alleged con artists marched through the streets reaffirming their trust in the companies and protesting the government's crackdown. On Thursday, David Murcia, the head of financial company **DMG** was arrested as he was en route to Costa Rica. Panama extradited him to Colombia to face charges of swindling investors out of their life savings. An attorney for Murcia's company said DMG did nothing wrong but he would cooperate with authorities.

## POLITICAL & ECONOMIC BRIEFS

### Peru to Issue 30-Year Bond, Will Decide on Bank After Summit

Peru plans to issue a \$500-\$600 million bond, its first sovereign bond since being rated investment-grade earlier this year, said Finance Minister Luis Valdivieso, the *Financial Times* reported Wednesday. Valdivieso said Peru will decide which bank will handle the bond after this week's Asia-Pacific Economic Cooperation Summit in Lima.

### Raul Castro to Make First Official Foreign Visit to Venezuela

Venezuela will host Raul Castro on his first foreign visit since becoming Cuba's president in February, Venezuelan President Hugo Chavez said Tuesday, the Associated Press reported. Chavez said the visit could happen within days. The Venezuelan president is a main ally of Castro's brother, former Cuban President Fidel Castro. Chavez said he was happy Raul Castro chose Venezuela over China, Brazil, Russia and other countries for his first foreign visit.

### During UN Visit, Morales Says He Won't Let DEA Resume Operations

During a visit to the United Nations Monday, Bolivian President Evo Morales said he will not allow the US Drug Enforcement Agency to resume operations in his country. Morales, who halted DEA operations in Bolivia November 1, made the announcement during a news conference after his address to the UN. He said Bolivia would replace DEA agents with a new partnership between his country's military and police force to fight drug traffickers. Morales said he hoped Bolivia and the US would have better relations under incoming US President Barack Obama.

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

higher domestic prices and the complete eradication of export taxes. Nonetheless the tax-breaks are a step in the right direction and should help to incentivize some new production. The Petroleum Plus program, along with the 'Gas Plus' program and earlier decisions to unfreeze some tariffs, are also a sign that the operating environment for energy investors is finally starting to improve. Meanwhile the government is hoping that the oil tax revenues forfeited

“Argentina's record of legal insecurity ... should give pause to investors unfamiliar with how to navigate Argentina's troubled economic and political waters.”

— *Maria Velez de Berliner*

through the Petroleum Plus program will be offset by a reduction in the amount it has to pay out in subsidies on imported fuel. Reducing the cost of subsidies has become an increasingly important driver behind energy policy as the government tries to improve its fiscal position ahead of next year's heavy debt service. However the assumption that the impact on the budget will be minimal rests on the expectation that crude oil and refined product production will rise sufficiently to allow for a substantial fall in imports. It is not clear whether this will in fact happen. A more significant reduction in the subsidy bill in the short term could come from lower commodity prices, although of course they will also contribute to a further drop in fiscal revenues from oil production.”

**A** **Guest Comment: Maria Velez de Berliner:** "Argentina has an estimated 2.5 billion barrels of proven (P-1) reserves, which is inadequate to support self-sufficiency. Therefore, the Petroleum Plus and Refinery Plus program seeks to coax pro-

ducers to tap into their probable (P-2) and possible (P-3) reserves to increase local supplies. Repsol-YPF, BP-controlled Pan American Energy (PAE), and Argenta Oil and Gas, Argentina's three major producers, are the likeliest beneficiaries. They have the largest proven and probable reserves. And they are veterans of how to operate under the regulatory vagaries of the sector in Argentina and the political expediency of its government. Geology makes Argentina's probable and possible reserves costly and difficult to bring online. The recent nationalization of pensions to fill the Fernandez Government's coffers shows Argentina can, only with difficulty, afford the tax incentives of the Petroleum Plus programs. Caution is today's rule in energy investments worldwide. The global crises in credit and confidence, and Argentina's record of legal insecurity regarding the sanctity of contracts in socially sensitive sectors, should give pause to investors unfamiliar with how to navigate Argentina's troubled economic and political waters. Given Argentina's recent history in treating investors less than fairly, there is a high risk of future government intervention in the energy sector, if the Fernandez Government remains in power, and under economic pressures caused by exogenous factors, such as a global recession and the ups and downs of the world's oil market. Investors will need to assess carefully whether the estimated return on investment facilitated by the promised tax breaks offsets the risks involved in doing business in President Fernandez's Argentina."

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