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FEATURED Q&A

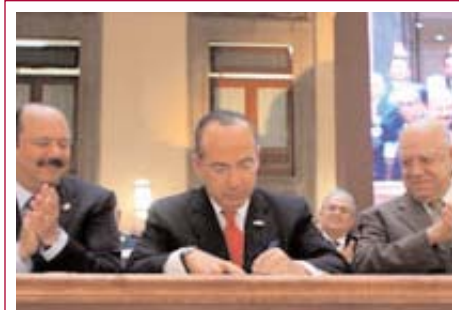
How Will Petrobras Weather the Economic Storm in 2009?

Q Brazil's state-owned oil giant, Petrobras, said last month that it would not scale back its five-year \$112 billion capital expenditure program. Meanwhile, loan offers from China, Japan, and private investors rolled in as the company had to take out an emergency loan to pay taxes on its third-quarter profits. What is the outlook for Petrobras in 2009? Where will it focus its efforts, both on the domestic and international stages? What will be its role in exploiting Brazil's yet-untapped offshore pre-salt reserves?

It has moved from a strong concentration on exploration and production, its most profitable activity, to major investments in local refineries (an investment program of over \$30 billion), shipbuilding, and so on. Loss of focus is never a good thing, particularly in times of crisis. As Brazil's premier oil company, Petrobras will continue to have a major role in the exploration of our pre-salt reserves. The real question is what role will private investors be allowed to play in the new regulations that are being discussed. That is what will determine how

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A **Guest Comment: Francisco Gros:** "By stating that it will not scale back on its investment program for the near future, Petrobras is following the Brazilian Government directive that investments should continue to go forward as usual, choosing to ignore, for the time being, any possible consequences from the crisis. In order to do so, it has turned to all the available government sources of financing: Brazilian development bank BNDES, Banco do Brasil, Caixa Economica. If they can raise additional funds from interested foreign suppliers, that would be a positive. But I can see a couple of problems. First of all, to the extent it taps all the available sources of domestic financing, it will crowd out more efficient private investment for the economy as a whole, which is a shame. Secondly, Petrobras has recently increased substantially the scope of its investment program.



Mexican President Signs Economic Stimulus Plan

Mexican President Felipe Calderon, flanked by government and business leaders, announced an economic stimulus package that includes a freeze on gasoline prices. See story on page 2.

Photo: Mexican Government.

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NEWS BRIEFS

Venezuela Reverses Decision to End Citgo Heating Oil Program

US oil company **Citgo**, a unit of Venezuela's state-owned **PDVSA**, said yesterday it would continue to provide free heating oil for poor families in 23 US states, after Venezuelan President Hugo Chavez intervened directly to save the program, reported the Associated Press. **Citizens Energy**, Citgo's Boston-based program partner, had said Monday that Citgo would terminate the program due to the downturn in oil prices. The four-year-old program provides free fuel to 200,000 households across the US.

Press Freedom Groups Condemn Attack on Mexican TV Station

Press groups on Wednesday condemned an attack earlier this week by gunmen on a **Televisa** TV studio in Monterey, Mexico. Paris-based group Reporters Without Borders and the Miami-based Inter American Press Association called for a quick and rigorous investigation into the incident, in which gunmen opened fire during a newscast and left a warning about the station's coverage of drug gangs. At least 24 reporters have been killed in Mexico since 2000.

China's Sinopec and Cnooc Bidding on Talisman Assets

Two Chinese companies are in the late stages of bidding on **Talisman Energy's** natural gas assets in Trinidad and Tobago, Dow Jones reported on Wednesday. According to a source close to the negotiations, **China Petrochemical Corp.**, known as Sinopec, and **Cnooc Ltd.** are working on a deal worth up to \$400 million for the transaction. Talisman's Trinidad and Tobago production averaged 6,439 barrels of oil equivalent in 2007.

Economic News

Mexico Will Freeze Gasoline Prices as Part of Stimulus Plan

Mexican President Felipe Calderon on Wednesday announced an economic stimulus package, which includes plans to freeze gasoline prices, reduce electricity rates in some industries and extend benefits for the unemployed, reported Bloomberg News. Calderon said government and Mexican industries this year will also hike spending on airports, sea ports, roads and other types of infrastructure to 570 billion pesos (\$US 42.4 billion). He said the country will reduce

“We are and will continue to live through a period of great difficulties in economic growth, investment and employment.”

— Felipe Calderon

heating gas prices by 10 percent and then freeze them for the remainder of this year. In announcing details of the plan in Mexico City, Calderon said Mexico's economy is facing significant threats as the global financial crisis spreads and reduces demand, resulting in job losses. He said economic problems in the US—which receives 80 percent of Mexico's exports—as well as in Europe and Japan, threaten to worsen Mexico's economy. "Mexico is not the exception," said Calderon. "We are and will continue to live through a period of great difficulties in economic growth, investment and employment." The stimulus plan will allow the unemployed to withdraw more funds from their retirement accounts and will also extend the length of time jobless Mexicans can get health benefits. The plan will also provide aid to companies hurt by the economic downturn. For the third quarter of 2008, Mexico posted a growth rate of 1.6 percent, its slowest rate in five years. In December, Mexico's manufacturing index fell for the sixth month in a row to a record low. In the Central Bank's most recent survey, economists said they expected eroding demand for

exports to cause the economy to contract by 0.1 percent this year. Calderon said the government will provide companies at least 2 billion pesos in aid to keep them from laying off employees.

Chile Posts \$224 Million Trade Deficit for December

Chile reported a trade deficit of \$224 million in December as prices for copper, the country's main export, fell, Bloomberg News reported Wednesday. In November, Chile had reported a trade surplus of \$684 million, according to the country's central bank. Exports in December fell to \$3.6 billion, a 24 percent drop from the same month in 2007. The value of Chile's

exports last month was at its lowest level since October 2005. Imports fell to \$3.9 billion, a drop of 2.7 percent. Demand for copper has plummeted, leading to prices for the metal to decline 54 percent, the largest drop in two decades. In 2008, Chile's trade surplus was \$13 billion, which was its lowest level since 2005. Year-on-year, Chile's exports have fallen for four months in a row.

Political News

Israel Considering Move to Expel Venezuelan Diplomats

Israel is considering a move to expel Venezuelan diplomats in Israel in response to a similar action by the government of Venezuelan President Hugo Chavez, the Associated Press reported Wednesday. Earlier this week, Chavez expelled Israel's ambassador to Venezuela and other high-level envoys in protest of Israel's military offensive against Hamas in the Gaza Strip. Yigal Palmor, a spokesman at Israel's Foreign Ministry said the Israeli diplomats were ordered to leave Venezuela within 72



Chavez

File Photo: Venezuelan Gov't.

hours. However, he said Venezuela's letter to the Israeli officials did not say the South American country intended to sever diplomatic ties. Meantime, Hamas on Wednesday praised Venezuela's expulsion of the Israeli diplomats. "As we look with great satisfaction at this courageous step, we are surprised and deplore that some Arab countries still allow the Israeli ambassador to remain in their capitals," a statement from Hamas said. Israeli envoys are still in place in Egypt and Jordan, which have signed peace accords with Israel.

Human Rights Group Urges Obama to End Cuba Travel Ban

A US-based human rights group is urging President-elect Barack Obama to lift the country's ban on travel to Cuba, the Associated Press reported Wednesday. Freedom House, a nonpartisan group, made the appeal while it criticized Cuba's record on human rights and said its pres-

Freedom House made the appeal while also criticizing Cuba's record on human rights.

ident, Raul Castro, has carried out only "nominal reforms." Lifting the ban on almost all US travel to Cuba would allow Cubans more access to the outside world, said Freedom House's Executive Director Jennifer Windsor, who called Cuba one of the world's most repressive countries. Freedom House also said that the US does not similarly ban travel to other countries criticized as having poor human rights records, including North Korea, Somalia and Sudan. During his campaign, Obama, who takes office in less than two weeks, said he would consider easing

Featured Q&A

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fast and how effectively Brazil will be able to develop its newfound oil resources."

A **Guest Comment: Paulo Valois Pires:** "Petrobras' business plan for 2009-2013 was assessed by the Board of Directors on December 19, but due to economic uncertainty, no final decision was made. The business plan will be re-evaluated in January, when it may or may not be approved. Despite the current economic crisis, Petrobras CEO Jose Sergio Gabrielli declared that the company doesn't intend to reduce investments in the exploration of the pre-salt layer. He has stated that Petrobras secured \$7 billion in investments and that the biggest difficulty the company has encountered in starting prospecting activities in the pre-salt area is the drill

shortage in the market. This has led Petrobras to request an extension of the period to declare the commercial viability of some of the pre-salt fields. The company is expected to play a leading role in the exploration of Brazil's pre-salt reserves since it's one of the leading companies in deep water oil exploration. On December 10, Gabrielli also stated that, even with the dropping oil prices, the exploration of oil in the pre-salt layer is still viable, as long as the barrel price stays at current levels. The issue that Petrobras really needs to address is the minimum oil price that allows the exploration of fields in the pre-salt area with a viable rate of return for its shareholders. In other words, is \$40 a barrel a viable amount to justify significant investments with high technological requirements and market risks? In addition, Petrobras should take into account in its strategy

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travel restrictions for Americans with family in Cuba. Obama has also said he would ease the US embargo against Cuba if the island's government were to begin "opening Cuba to meaningful democratic change." Currently, trade with Cuba is restricted to sales of agricultural products and medical supplies to the island. Americans convicted of violating the travel ban could face up to \$250,000 in fines and up to 10 years in prison. US President John F. Kennedy first imposed the travel ban in 1960, a year after Fidel Castro took power in Cuba. The ban lapsed in 1977 under President Jimmy Carter. President Ronald Reagan put it back into effect in 1982.

Company News

Brazil's Petrobras Plans to Reduce Natural Gas Purchases From Bolivia

Brazilian state-run energy company **Petrobras** plans to reduce the amount of natural gas it buys from Bolivia, Reuters reported Wednesday, citing a government source. Petrobras will reduce its purchases after rains increased its hydroelectric

dams' water levels. Petrobras currently buys 30 million cubic meters of natural gas a day, but that total will be cut by 30 percent, said Joao Souto, the deputy secretary of the Natural Gas and Renewable Fuels Department in Brazil's Energy Ministry. "The gas-fired thermoelectric plants were running needlessly," Souto said. Petrobras' move could help other nearby countries that have struggled to obtain enough energy during the South American winter. Brazil uses many of its thermoelectric plants as backup generators to reduce strains on hydroelectric dams during the dry months of the year. Souto also said that beginning Friday, thermoelectric plants would cut their output by 3,500 megawatts and that hydroelectric plants, which are able to provide up to 85 percent of the country's power, would provide more electricity. Petrobras' contract stipulates the company must buy at least 70 percent of the 30 million cubic meters of natural gas it has agreed to buy from Bolivia, Souto said. "What matters is the average over the month," he said. "It can be 24 [million cubic meters] one day and 19 another." Brazil's Electricity Sector Monitoring Council is expected to officially announce the cut tomorrow.

Featured Q&A*Continued from page 3*

the opening-up of new opportunities to other oil and gas companies with the goal of sharing risks and associated exploration costs."

A **Guest Comment: Mary Rose Brusewitz:** "The full impact of the continuing waves of global financial crises on Brazil and on the Petrobras group is unknowable. At this time, Brazil appears to be better positioned than most countries in the world to weather the storms. There's no sign that successive waves of bad news will not continue to be felt well into 2009. The Petrobras group continues to be a strong company, with positive long-term prospects. In 2009, the group will continue to face many conflicting priorities in terms of allocating financial, human and political capital and resources. In recent

both financially and politically. In addition to financing the development of the pre-salt reserves, the Petrobras group may need to continue to develop existing fields (so as to avoid losing rights to them), invest in the capture and transportation of natural gas, maintain and strategically manage its international operations, support its alternative energy and fuels programs, expand its refining capacity, renew and expand its fleets of ships and platforms and exploit carbon trading markets, to the extent possible, among other goals. There is a hefty agenda even in times of relatively smooth sailing. Brazil is heading into a key presidential election cycle, which is always unsettling. On the other hand, Petrobras has always been a survivor and, even in very lean times in the financial markets, has been able to manage its cash and financ-

“The Petrobras group continues to be a strong company, with positive long-term prospects.”

— *Mary Rose Brusewitz*

years, relatively easy financing terms were available to the largest Brazilian companies from internal and external sources. With oil prices falling, the economic logic of developing the pre-salt reserves could be challenged, absent strong political will. On the other hand, the pressure on Petrobras' balance sheet from protecting the Brazilian populace against high international oil prices could be less if prices remain relatively low. So far, it appears that the Brazilian government will support and prioritize the strategic goal of developing the pre-salt reserves, though there are signs that tax revenues are taking a downward turn, so funding may need to come from elsewhere. Despite the continued credit squeeze, recent offers of financing to Petrobras from external sources directed at development of the offshore pre-salt reserves seem promising. However, creativity will be needed to ensure that financing terms are palatable

ing opportunities in an agile fashion. It will need to increase the use of joint ventures with strategic partners and equipment and services providers and access less traditional credit sources. This may imply swallowing, at least temporarily, politically unpopular attributes such as higher financing costs and loss of control in non-strategic areas where partners are brought in."

Francisco Gros is *Vice Chairman of the Board of OGX Oil and Gas, a former president of Petrobras and former President of the Brazilian Central Bank.*

Paulo Valois Pires is a *Partner of Schmidt, Valois, Miranda, Ferreira & Agel Advogados in Rio de Janeiro.*

Mary Rose Brusewitz is a *Partner at Strasburger & Price, LLP.*

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Erik Brand,
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta,
Editor
gkuleta@thedialogue.org

Matthew Schewel,
Reporter, Assistant Editor
mschewel@thedialogue.org

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
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Senior Fellow

Subscription Inquiries are welcomed at freetrials@thedialogue.org

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Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

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