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FEATURED Q&A

Can Obama Create an 'Energy Partnership for the Americas'?

Q During his campaign, President-elect Barack Obama promised an "Energy Partnership for the Americas" to create sustainable growth and promote renewable energy in the hemisphere. The upcoming Summit of the Americas, which will be one of the new President's first opportunities to engage hemispheric leaders, also calls upon countries to develop an energy cooperation strategy before 2011. What would these partnerships look like, and what is the likelihood they will be implemented? Where will they overlap? Which areas of the energy sector are most ripe for collaboration, and what factors might derail plans for increased energy cooperation?

A Board Comment: Paul Isbell: "Obama's proposed 'Energy Partnership for the Americas' would be a welcomed initiative, and would easily dovetail with the energy aspects of the Draft Declaration of the Fifth Summit of the Americas. A renewed push toward deeper hemispheric collaboration on energy issues would be a potential antidote to the recent wave of energy nationalism in the region, and it would certainly be a logical mechanism for smaller, import-dependent economies to use in the attempt to augment their energy security. It is true that many oil and gas producers—like Venezuela, Ecuador, Bolivia and Argentina—are unlikely to cooperate with such an endeavor, particularly if it were to be based on open, transparent, and rules-based, market principles. But if the Energy Charter Treaty of Europe and Eurasia is any guide, the opposition of a few countries does not necessarily doom regional collaboration to failure. The big question is what kind of specific content should or could be included in such an initiative. A couple of areas seem to offer at least some promise. The first would be in

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Ecuador Confirms $280 Mn Loan From Iran for Pipeline Upgrade

Ecuadorean President Rafael Correa (R) on Monday met with an Iranian delegation led by minister Mohammad Abbasi (L) to discuss progress on bilateral agreements following Correa's visit to Iran last year. See brief on page 2.

Source: Ecuadorean Government.

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ENERGY SECTOR BRIEFS

Ecuador Confirms $280 Mn Loan From Iran for Pipeline Upgrade

After meeting with an Iranian delegation on Monday, Ecuadorean President Rafael Correa confirmed Iran would provide a $280 million loan to help Ecuador overhaul its oil pipelines. Last week, Ecuadorean Oil Minister Derlis Palacios said state oil company **Petroecuador** plans to invest approximately $1.2 billion this year, but that the amount could increase if oil prices recover and allies such as Iran and Russia offer financing.

Peru Expects Up to $400 Million in Biofuels Investments in 2009

Peru's Agriculture Minister, Carlos Leyton, said Monday that investment in biofuels in the Andean nation would total between $300 million and $400 million in 2009, according to state news service Agencia Andina. Planned projects include a $222 million ethanol venture by the Peruvian unit of US-based **Maple Energy**, which recently increased its investment from $160 million. Leyton said last December that President Alan Garcia asked private companies to reveal the details of their planned investments.

Petrobras to Spend Billions to Produce Reduced-Sulfur Diesel

Brazilian national oil company **Petrobras** said Tuesday it will invest $4 billion through 2012 to produce low-sulfur diesel, reported Dow Jones. Petrobras, which began supplying bus fleets in Rio de Janeiro and Sao Paulo with imported S-50 diesel on Tuesday, is in the process of converting its local refineries to produce S-50. The company said it will spend an additional $2 billion to further reduce sulfur amounts on the way to producing cleaner S-10 diesel starting in 2013.

Oil & Gas News

BG Group to Invest Billions in Brazil Pre-Salt Oil Field Projects

Britain's **BG Group** confirmed Tuesday it plans to invest between $4 billion and $5 billion through 2012 on projects in Brazil's pre-salt oil fields, reported Bloomberg News. The company, which holds joint stakes in pre-salt wells in the Tupi, Iara and Guara fields, plans to begin output by 2010 and produce 300,000 barrels per day by 2012, said CEO Frank Chapman. The investment, announced in a Monday meeting between BG executives and Rio de Janeiro state governor Sergio Cabral, will constitute one-fourth of the funds destined for the Tupi region. BG Group, the UK's third largest gas producer, owns a 25 percent stake in both the offshore Tupi and Iara fields, and 30 percent of the Guara field. Brazil's state-owned oil company **Petrobras** is the operator in all three fields and holds at least 45 percent of each. Brazil's pre-salt fields are estimated to contain 80 billion barrels of oil, which is enough to supply US consumption for over ten years. Petrobras shipped a record 620,000 bpd in December, 63 percent of which went to the US, according to a company press release.

Mexico Expects Oil Production to Reach 3 Mn Barrels Per Day by 2015

Mexico should see oil production increase to 3 million barrels per day by 2015, Secretary of Energy Georgina Kessel told Mexico's Senate on Wednesday. Kessel said state oil monopoly **Pemex** could expect to produce between 2.7 million and 2.8 million bpd in 2010 and 2011, in line with current production levels, before commencing a gradual increase in 2012. "Currently, more than 90 percent of our production is sustained in fields that have reached their stage of maturity and are currently in decline or about to reach that point, like Cantarell and Ku-Maloob-Zap," Kessel said, adding that the energy reform passed last year by Mexico's Congress would help to slow the rate of decline and increase restitution of reserves. Output from Cantarell, the country's primary oil field, dropped 31 percent between January and November of last year, reported Reuters. Kessel also said Mexico has submitted a proposal to the US State Department that seeks to protect Mexican oil reserves in border waters in the Gulf of Mexico. Speaking at the same event, Pemex's Director General, Jesus Reyes Heroles said the company "has a large portfolio of projects to gradually replace

Kessel

Photo: Mexican Government.

lost production at the fields in decline." Mexico's energy reform, which included the reorganization of Pemex and greater flexibility in contracts with the private sector, has gotten off to a slow start due to delays in the appointment of Pemex officials, according to Reuters. [Editor's note: see related Q&A in the December 19, 2008 issue of the *Energy Advisor*.]

BPZ Energy Signs $1.3 Bn Contract With Petroperu, Cancels Shell MOU

Houston-based **BPZ Energy** last Friday signed a seven-year crude oil sales contract with Peru's state-owned **Petroperu** worth an estimated $1.3 billion, but said it was dropping plans for joint development projects with **Royal Dutch Shell**. Under the sales contract, BPZ will deliver approximately 17 million barrels of oil from its offshore Corvina field to Petroperu's Talara refinery 100 miles to north, the company said in a press release. BPZ said both the length of the contract and the quoted sales price would be subject to "commodity price fluctuations and production levels." The $1.3 billion figure is based on a price of $65 per barrel, although the actual prices will be determined based on 15-day published averages. The company also said last week it had shelved plans for a farm-out agree-

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ment with Shell on four oil blocks it owns in Northwest Peru. "A joint venture under the current environment, driven by reduced and volatile commodity prices, could place an unwarranted financial burden on BPZ and its shareholders," said Manolo Zuniga, President and CEO of the company, which will retain 100 percent ownership of the blocks. Zuniga added that BPZ's production could increase to 12,000 bpd from its 2008 year-end average of 6,000 bpd, and that the company will continue to pursue its gas-to-power project, which aims to sell electricity to Peru's energy grid.

Power Sector News

Ecuador Makes Overdue Loan Payments to Brazil

The government of Ecuadorean President Rafael Correa has made payments to Brazil that had been overdue on a $246.9 million loan related to the San Francisco hydroelectric plant, Brazil's foreign ministry said Saturday, according to the Associated Press. The payments may end a dispute that led Brazil in November to recall its ambassador to Quito. Now that Ecuador has made the payments, Brazil says it will send Ambassador Antonino Marques Porto back to Ecuador. Ecuador had held back the payment on the loan for the San Francisco plant, alleging work by Brazilian contractor **Norberto Odebrecht** was shoddy. But even though Ecuador has now made the payment to Brazil's National Development Bank, Brazil said it "will continue to closely observe the evolution of its economic and financial relations with Ecuador." The dispute over the hydroelectric plant also led Ecuador to eject Odebrecht executives from Ecuador late last year. After Ecuador held back the payment, Brazilian Foreign Minister Celso Amorim said in December that Ecuador had "shot itself in the foot," adding Brazil is one of

Correa

File Photo: Ecuadorean Gov't.

Featured Q&A

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the realm of renewable energy promotion. Although the US-Brazil Biofuels Partnership is still too young to present us with many tangible results, it does offer a useful template for further collaboration. The hemispheric effort might even considering merging its efforts with the Ibero-American space, inviting Spain—one of the world's leaders in wind and solar energy, and a European leader in biofuels—to participate in a broader renewable energy partnership. A logical area where such efforts might focus would be Central America and the Caribbean. This subregion is the poorest and most economically vulnerable to both external dependence and oil price volatility in the region, and would therefore particularly benefit from any attempts at regional energy integration or replacement of fossil fuels with renewables in their primary energy mixes."

A Board Comment: Roger Stark: "Opportunities for regional energy cooperation are, in theory, almost limitless. In practice, they are constrained by the vagaries of intellectual property law, US trade policies and current market conditions. The Obama Administration has foreshadowed an energy policy that will focus on three key objectives: energy efficiency, energy security and climate change mitigation. The US has all the intellectual and economic capital necessary to become a world leader in energy technology. However, the willingness of US companies to export energy technology to other countries in the region depends on whether their intellectual property (IP)—*i.e.*, patents and know-how—will be adequately protected. Latin American governments must demonstrate a strong commitment to IP protection in order to attract leading edge technologies. Climate change and energy security issues are often two sides of the same coin. Reducing the use of hydrocarbon fuels reduces greenhouse gas emissions and also reduces our dependence on foreign oil from unstable or unreliable foreign sources. Biofuels provide a basis for regional trade that could support both goals. However, US agribusiness interests have thus far opposed the repeal of tariffs that support US corn-based ethanol at the expense of cheaper and more efficient biofuels available from non-US feedstocks. By contrast, some US companies continue to develop and finance Latin American power projects using renewable energy resources (primarily wind and solar facilities), but face stiff competition from Spanish and other European or Asian competitors. Additional US investment capital might flow to these projects if suitable protections were available pursuant to bilateral or multilateral investment treaties. However, rather than strengthening these treaties, some Latin American governments are seeking to weaken or even repudiate them. In sum, the Energy Partnership for the Americas holds great potential for sustainable, economic trade in energy technologies, feedstocks, power projects and capital, but realizing this potential will require hard work on a variety of difficult issues."

> "Climate change and energy security issues are often two sides of the same coin."
>
> — *Roger Stark*

A Guest Comment: Johanna Mendelson Forman: "Obama's plan builds on the 2007 US Biofuels Memorandum of Understanding with Brazil, one of the more important policy achievements of the Bush Administration. But it goes beyond the bilateral focus to a more integrated program that will help Latin American nations become more energy independent, focusing on promotion of renewable resources to advance sustainable growth through green technology. As we approach the Summit of the Americas, the Obama Administration may find its vision of energy partnerships compromised by the continued insistence of the

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Ecuador's last remaining loan sources. Ecuador has said it faces a $1.5 billion budget deficit because of falling crude oil prices. Last month, it defaulted on a portion of its foreign debt.

Nicaragua to Invest Over $2 Billion in Renewable Energy by 2013

The Nicaraguan government said Monday it plans to invest $2.1 billion in renewable energy projects over the next four years with help from Brazil, Iran, Mexico, and Russia, reported Agence France-Presse. The promised funds would add 856 MW to Nicaragua's energy grid, 65 percent of which would come from hydroelectric and 23 percent from geothermal, as well as 11 percent from coal. Brazil will provide $350 million for the construction of a new hydroelectric plant, the government said. According to the state-run Nicaraguan Energy Institute, 66 percent of the country's electricity during the period from January 2008 to November 2008 came from fossil fuels, consisting of bunker oil and diesel fuel. The government wants to reduce that number to 12 percent, taking advantage of the "great potential for hydroelectric, geothermal, wind, and biomass-generated energy in the country," according to a statement. The projects will also aim to provide electricity to 23,000 rural homes and install solar panels in schools and health centers. Nicaragua's first wind project, the Amayo wind park, is slated to open on February 15 with a capacity of 40 MW, reported local daily *El Nuevo Diario*. Amayo, the largest wind park in Central America and the Caribbean, will provide approximately 7 percent of Nicaragua's energy needs. The Central American Bank for Economic Integration provided $71.2 million out of the project's $90 million price tag.

Chilean Unit of Enersis Will Lose $70 Mn Due to Gov't Tariff Cut

South American energy group **Enersis**, said Tuesday that Chile's new rates for distributors would result in a $70 million drop in revenues for the company's **Chilectra** unit, reported Reuters. The Chilean government on Wednesday cut sub-transmission rates, which regulate how much distributors pay to channel electricity to large cities and then residential customers. In 2006, Chilectra, the country's top electricity distributor, challenged the decree reducing the rates, which delayed until January 8 its publication in Chile's official register, reported Radio Santiago. The new rates, which will stay valid for one year, are estimated to result in a savings of 4 to 6 percent for Chilectra customers in 1.6 million homes. Enersis, which is controlled by Spain's **Endesa**, has investments in Argentina, Brazil, Chile, Colombia and Peru.

Political News

Obama Meets With Calderon to Discuss Immigration, Security

In his first meeting with a foreign head of state since his November election, US President-elect Barack Obama met with Mexican President Felipe Calderon Monday in Washington. Over lunch at the Mexican Cultural Institute, Obama and Calderon discussed several topics including immigration and security, the Voice of America reported. The two leaders discussed how to work together on immigration in order to strengthen both the US and Mexico. Calderon said both countries must collaborate in the fight against organized crime. Since taking office, Calderon has dedicated tens of thousands of troops to fight drug traffickers but has seen drug-related violence in his country soar. Nearly 5,700 people were killed in drug-related violence last year in Mexico. [Editor's note: see related Q&A in the January 13, 2009 issue of the daily *Advisor*.] Obama said his meeting with Calderon also included discussion of the global financial crisis and how it has affected businesses in both countries. On Tuesday, Calderon told reporters he and Obama did not discuss reopening the North American Free Trade Agreement during the meeting, but said he would be open to renegotiating some labor and environmental provisions related to the treaty, reported the AP. Obama said during his campaign we would seek to reopen NAFTA, a move which Calderon last

Calderon and Obama

Photo: Mexican Government.

year called "a very bad idea." The labor and environmental standards related to NAFTA are governed by side accords and are not technically part of the 1994 treaty.

Bolivian President Breaks Ties With Israel Over Gaza Offensive

Bolivian President Evo Morales said Wednesday that he was breaking diplomatic ties with Israel over the Middle East country's offensive in the Gaza Strip, the Associated Press reported. Morales also said he would request that the International Criminal Court file charges of genocide against Israeli officials. In La Paz, Morales told a gathering of foreign diplomats that the Israeli military offensive, which started December 27, "seriously threatened world peace." He said criminal charges should be brought against Israeli Prime Minister Ehud Olmert and members of his cabinet. Morales also lambasted what he called the United Nations "Insecurity Council," which he said offered only a "lukewarm" response to the military action, adding that the UN General Assembly should condemn the military actions. Morales added that Israeli President Shimon Peres should be stripped of the Nobel Peace Prize he was awarded in 1994. Bolivia's move to break ties with Israel follows similar action by the government of Venezuelan President Hugo Chavez. Both Morales and Chavez have nurtured ties with Iran, which backs the militant Islamist movement Hamas. Israel began its offensive last month in an effort to stop Hamas rocket attacks in southern Israel. So far, more than 1,000 Palestinians, including hundreds of civilians, have been killed in the Israeli attacks, according to *The Washington Post*.

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Economic News

Brazilian Central Bank to Loan More Than $20 Billion to Companies

Brazil's central bank is planning to loan more than $20 billion to companies that are having trouble rolling over their foreign debt, Bloomberg News reported Wednesday, citing bank president Henrique Meirelles. The bank will begin disbursing the loans this month by tapping its reserves, Meirelles said at the Brazilian-American Chamber of Commerce in New York. He said the loans could eventually aid more than 4,000 companies. "The Central Bank is going to provide liquidity," said Meirelles. "The expectation is that the supply of credit is going to be normalized slowly." Meirelles said he hopes the move will counter the effects of the global economic crisis, which have hurt consumer confidence and tightened lending in many locations, including Brazil. Meirelles said that while Brazilian banks have begun to ease lending, financing costs are still high. The Central Bank has already provided exporters $10 billion in credit lines, but access to credit remains lower than before the crisis hit. Economic indicators in Brazil continue to illustrate the economic slowdown. Sales of cardboard, a main indicator, dropped 4.5 percent in December from the previous year, according to the Brazilian Corrugated Paper Association. Companies are also continuing to lay off workers and the number of government-registered jobs may have fallen by a record number last month, Brazilian Labor Minister Carlos Lupi said Wednesday. He did not provide specific figures. Brazil could also "add additional incentives" to a national housing plan in order to help the construction industry, according to strategic consulting firm **The Eurasia Group**. The firm said such a move would be aimed at providing "a means to stimulate a sector which is labor intensive."

Mexico Delaying Construction of Punta Colonet Pacific Port Project

Mexico will delay the construction of a new port on the country's Pacific coast because the project's bidders are having trouble arranging financing, Mexican officials said Tuesday, according to Bloomberg News. Mexico also has not ruled out canceling the project to build the planned $4.9 billion Punta Colonet port. The global economic slump has led port traffic on the Pacific coasts on the US and Canada to fall 30 percent, causing difficulty for bidders to arrange the financing, said Mexican Communications and Transportation Minister Luis Tellez. "We are working with banks to see if this will be possible," Tellez said. "There is still interest in the project. It is just a matter of timing." Mexican President Felipe Calderon has announced plans to spend 570 billion pesos ($US 41.2 billion) in public and private funds on infrastructure each year through 2012. The port project is the single biggest undertaking in that plan. As designed, it also includes highways, an airport and a railway to the United States as part of the Colonet project.

Tellez

Photo: Mexican Government.

Prosecutors Investigating Madoff-Related Losses of Santander Clients

Prosecutors in Spain are investigating how **Banco Santander**'s clients lost more than 2.3 billion euros ($US 3.1 billion) in connection with Bernard Madoff's alleged Ponzi scheme, *The Wall Street Journal* reported Tuesday. Investors in Latin America suffered approximately two-thirds of the losses that the Spanish bank experienced in connection with Madoff. The bank's clients in Mexico were hardest hit, losing nearly $400 million, the newspaper reported. Clients in Argentina suffered losses of about $350 million and investors in Brazil lost about $300 million. Altogether, approximately 3,000 of Santander's clients in Latin America lost money. Investigators are looking into why Santander Chairman Emilio Botin dispatched a top bank official, Rodrigo Echenique, to New York to meet with Madoff in November just before the alleged scheme unraveled.

POLITICAL & ECONOMIC BRIEFS

Venezuelan Lawmakers Approve Asking Voters to End Term Limits

Venezuela's National Assembly on Wednesday approved placing a referendum before voters asking them whether to abolish term limits for all elected officials, the Associated Press reported. The measure, championed by President Hugo Chavez, would allow him to run for re-election indefinitely. The Assembly, dominated by Chavez allies, passed the bill with a strong majority. Although a date for the referendum has yet to be set, Chavez said it could occur as soon as February 15.

Judge: Argentina Must Pay Up to $2.2 Bn to Holdout Bondholders

A federal judge in New York ruled last Friday that Argentina must repay as much as $2.2 billion to bondholders left in the lurch after the country defaulted on $95 billion of debt in late 2001, reported Bloomberg News. The bondholders, who hold about $12 billion in Argentine debt, are part of a group that rejected former President Nestor Kirchner's offer to pay 30 cents on the dollar in 2005. Argentina's government has 30 days to appeal the decision.

Chavez Says Fidel Castro Unlikely to Appear in Public Again

Venezuelan President Hugo Chavez on Sunday said it was unlikely ailing former Cuban leader Fidel Castro would appear in public again, reported the Associated Press. Castro, who underwent intestinal surgery in mid-2006 before ceding power to his brother Raul, has since met with Chavez and other foreign leaders behind closed doors. Fidel issued a message on January 1 marking the 50th anniversary of the Cuban revolution. In it, he congratulated "our heroic people."

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Featured Q&A

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Obama team to retain the import tariff imported Brazilian ethanol. This form of protectionism will require some rethinking if the goal of this first meeting with Latin American counterparts is to build a true sense of partnership and collaboration. There is broad consensus on the need to improve energy integration in the hemisphere. The opportunities, however, are most evident in Central America, where the Proyecto Mesoamerica has laid an important foundation for regional electrification through massive investment in energy infrastructure. It is precisely in this region that the Obama vision of technical cooperation on green energy, shared technology, and development of renewable energy resources could be used to support the new infrastructure now in place. Working with Brazil will be essential because energy diplomacy can be used to leverage other types of cooperation we need with South America's second largest country. However, a recent decline in the price of oil may adversely impact the regional initiatives on renewable energy resources. As a policy decision the focus of the Obama Administration will also have to reinforce the long-term need to promote alternative energy since the demands of carbon reduction and mitigation of the adverse impacts of climate change demand that an energy partnership become a tool for diplomatic engagement, development assistance and a leveraging point for improved free trade."

A Board Comment: Jorge Kamine: "These partnerships would presumably build on four recent bilateral and regional efforts to promote energy integration and cooperation. The first is the US-Brazil MOU on biofuels, which has led to partnerships and investments in Central America and the Caribbean. Second are transmission line and interconnection projects that facilitate electricity exports, including SIEPAC in Central America, the proposed undersea transmission line connecting Colombia, Puerto Rico and the Dominican Republic, and proposed interconnections between Brazil, Argentina, Peru and Uruguay. Third is the possible development of joint energy infrastructure projects like the proposed Peru-Brazil hydro dams. Finally, there are regional energy solutions like the exporting of Peruvian gas to Mexico for its power generation. The Summit could also serve as a forum for the development of a common hemispheric agenda on carbon emissions related to energy production in advance of upcoming negotiations of the post-Kyoto Protocol regime. The US-Brazil MOU may represent the best example of a partnership that ties back to a Summit plan of action (Mar del Plata, paragraph 33) and could potentially be expanded to include investments in other renewable technologies like solar and wind. The US could also expand its financing for much-needed investments to develop deepwater oil and gas reserves and new power generation and transmission infrastructure. Unfortunately, the recent energy shocks suffered by Brazil, Chile and others as a result of gas supply interruptions has encouraged a policy shift towards greater energy independence from regional suppliers rather than interdependence (note the shift to LNG regas terminals versus regional gas pipelines). Restoring regional confidence in the viability of relying on energy imports (whether gas or electricity) will be key to defining the scope of any energy cooperation strategy."

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