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FEATURED Q&A

Is the Middle East a Land of Opportunity for Latin NOCs?

Q Earlier this month, Brazilian state oil company Petrobras said it would study building a refinery in Iraq, which followed an Arab-South American summit that focused on oil sector cooperation. Is the Middle East a land of opportunity for Latin America's national oil companies? What obstacles stand in the way of increased Latin American involvement in that region? What do Latin American NOCs offer the Middle East and what can they expect in return?

Petrobras after years of experience throughout Latin America, Africa and, recently, North America. Moreover, international activities already account for over 10 percent of Petrobras' production and the company operates a significant complex of refineries in North and South America. Petrobras has the potential to provide useful guidance (in Iraq, especially) on how to effectively mix national interests with company growth while max-

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A Board Comment: **R. Kirk Sherr:** "Only a few of the Latin American national oil companies, principally Petrobras, Pemex and PDVSA, have the scale and financial capacity to play a significant role in the development of natural resources in the Middle East today. Each of these companies now produces at or above 2 million barrels per day, and in the case of Pemex, close to 3 million barrels per day. However, both Pemex and PDVSA face serious internal issues (*i.e.* subsidies, political and legislative barriers to foreign investment) that limit their international reach mainly to adjacent markets in regard to exploration, production and refining. For the foreseeable future, the main Latin American candidate for an enhanced presence in the Middle East is Petrobras. In fact, expansion into additional markets in North Africa and the Middle East is a natural for



Obama's Energy Partnership Features Brazil, Chile, Mexico

At the Fifth Summit of the Americas last weekend in Trinidad and Tobago, US President Barack Obama and his energy secretary offered new details about his "Energy and Climate Partnership of the Americas". See story on page 2.

Photo: White House.

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ENERGY SECTOR BRIEFS

Brazil May Increase Fuel Tax to Offset Revenue Losses

Officials in Brazil may increase a special fuel tax in order to offset government revenue losses, Dow Jones reported Wednesday, citing Brazil's Agencia Estado. Mines and Energy Minister Edison Lobao said a decision on hiking the tax, called CIDE, could happen within three or four months. The tax is fixed at 0.18 reais per liter of gasoline. Refiners and distributors could absorb the tax hike without passing on the cost to consumers due to lower crude prices, reported Agencia Estado.

US Cellulosic Ethanol Company Partners With Brazilian Firm

US-based **KL Energy**, which specializes in cellulosic ethanol production, said Wednesday it entered into an agreement with Brazilian ethanol developer **add blue** to bring its proprietary technology to Brazil. The companies plan to use the technology to process sugarcane bagasse and straw feedstock in a conventional mill by 2010, according to a press release. The companies did not offer any further details of the deal.

Techcorr Will Open Two Offices in Mexico

Texas-based engineering firm **Techcorr** announced Sunday it will open two new offices in Mexico, one of the company's fastest growing markets, according to a press release. The company's CEO and president, Vincent Summa, said Mexico is one of a few countries to continue investing in oil and gas infrastructure in the current economic scenario. The offices will be located in Villahermosa in Tabasco state and Mexico City. Techcorr, which also operates in Colombia and Venezuela, provides testing for refineries and other facilities.

Power Sector News**Obama's Energy Partnership Starts With Brazil, Chile and Mexico**

At the opening of last weekend's Summit of the Americas in Trinidad and Tobago, US President Barack Obama affirmed his commitment to creating an "Energy and Climate Partnership of the Americas," a framework that will start with Brazil, Chile and Mexico, Obama's energy secretary told reporters on Saturday. "We don't have a hard and fast idea of what the framework should be," Energy Secretary Steven Chu said, according to a White House transcript. "This is meant in the spirit of collaboration to say, O.K., how is it that we can mutually develop a framework not dictated by the United States but done in collaboration with the other partners," he added, citing discussions underway with Mexico on renewable energy and energy efficiency, biofuels collaboration with Brazil, and bilateral talks with Chile.

“We don't have a hard and fast idea of what the framework should be.”

— US Energy Secretary Steven Chu

"We are very hopeful that many countries in the Western Hemisphere will join," Chu said. In a policy brief, the White House said Western Hemisphere "countries will be encouraged to suggest tangible ideas for cooperation," and that Chu will further advance the discussion at the Americas Energy Symposium in Peru scheduled for June. Chu met with Chilean Energy Minister Marcelo Tokman during the summit to discuss cooperation in renewable energy and proposed the creation of a research center in the South American nation to support the diffusion of US technology, according to a Chilean government Web site. Leaders from 34 nations in the hemisphere sat down to discuss energy security at the summit's second plenary session on Saturday. Mexican President Felipe Calderon called

for better interconnection of energy grids throughout the region, programs to promote more energy-efficient appliances and a multilateral investment fund with contributions based on per capita income and energy emissions, which countries could draw on for energy initiatives, according to the presidency's Web site. Obama too argued for increasing energy efficiency, calling it the "lowest-hanging fruit" in decreasing the world's carbon footprint, Chu told reporters after the meeting. Chu said Caribbean leaders expressed concern with rising sea levels due to global climate change, which he warned could cause some island states to "disappear" by the end of this century. But a pledge in the original summit declaration for countries to meet 50 percent of their energy needs with renewable or low-carbon energy sources by 2050 was deleted in the final document, as were other concrete proposals such as improving regulatory regimes by 2012. Furthermore, Bolivia's delegation objected to a paragraph on biofuels cooperation on the grounds that such efforts could "increase deforestation, displace populations due to the demand for land, and ultimately aggravate the food crisis." In the end, the declaration was signed only by the summit's host, Trinidad and Tobago Prime Minister Patrick Manning, after Venezuela and other countries refused to sign partly over objection to the US embargo on Cuba, while the remaining nations abstained over the lack of unanimity. [Editor's note: see related Q&A in the April 13-17 [issue](#) of the *Energy Advisor*.]



Chu and Tokman

Photo: Comision Nacional de Energia.

Oil & Gas News**Report: Argentina's Energy Sector Faces 'Serious Structural Problems'**

Argentina's energy sector is facing "serious structural problems without any solutions in sight," according to a report by



De Vido

Photo: Argentine Government.

eight of the country's former energy secretaries, EFE reported Wednesday. The report says the sector is endangered by falling investment and a lack of transparency in the state oil company **Enarsa**. The study, prepared by former energy secretaries including Daniel Montamat and Alieto Guadagni, was rejected by the country's planning minister, Julio De Vido, as "tendentiously and maliciously politicized." De Vido blasted the report saying the former energy ministers "had a great number of failures," adding, "Therefore, their criticism is in no way pertinent." In November, Argentina launched a tax incentive plan for the oil industry, which aims to increase the country's reserves because of increasing fuel consumption.

Petrobras Could Buy Up to \$30 Bn in Ships from South Korean Firms

Brazilian state oil company **Petrobras** could spend up to \$30 billion on drill ships from Korean builders, reported Reuters on Tuesday. Petrobras executives visiting Seoul met with top Korean shipbuilders **Hyundai Heavy Industries**, **Samsung Heavy Industries**, **Daewoo Shipbuilding and Marine Engineering** and **STX Shipbuilding** to discuss the orders, which include \$15 billion this year alone for drillships and semi-submersibles. "South Korean shipbuilders are among the best [in the world] with new technology and ways to reduce costs," Petrobras CFO Almir Barbassa was quoted as saying by Reuters. He added that within the next five to six years, Petrobras would be looking to add 240 offshore oil development vessels to its fleet. South Korean shipbuilders won 12 contracts from Petrobras last year. State-run **Korea Export Insurance Corp.** said it would provide medium- and long-term insurance to shipbuilders if they win new orders from Petrobras, reported English-language newspaper *The Korea Herald*. The South Korean government is provid-

Featured Q&A

Continued from page 1

imizing access to international capital markets. Petrobras and Pemex might also provide useful guidance to Iraq regarding internal natural gas utilization and pipeline development. In return from the Middle East, Latin America might expect to see continued expansion of exports, more extensive financial support for regional infrastructure development and a broader range of technical, scientific and cultural exchanges."

ing 8.7 trillion won (\$6.4 billion) to aid struggling shipbuilders hit hard by a downturn in global trade, according to the paper.

Bolivia Agrees to Double Shipments of Natural Gas to Argentina

Bolivian officials have agreed to send at least 4 million cubic meters of natural gas daily to Argentina during the Southern Hemisphere winter, twice the volume that was sent during the same period last year, Bolivian newspaper *La Prensa* reported Tuesday, citing Carlos Villegas, the president of Bolivia's state energy company **YPFB**. The agreement between Bolivian and Argentine officials, reached Monday night during a meeting in Santa Cruz, was a modification of a contract that has been in force since 2006. The additional gas sent to Argentina will partially offset a drop in Brazilian demand, which had averaged 20 million cubic meters daily so far this year, compared to 30 million cubic meters last year, Reuters reported Tuesday. Heavy rainfall in Brazil has made it cheaper to produce hydroelectric energy in Brazil. In 2008, Bolivia sold more than \$3 billion worth of natural gas to Brazil and Argentina, the top importers of Bolivian natural gas. Bolivia has South America's second-largest reserves of natural gas after Venezuela.

UK's Bayfield Signs \$150 Million Contract in Trinidad and Tobago

UK-based oil company **Bayfield Energy** on Wednesday signed a \$150 million con-

A **Guest Comment: Jalal Chaya:** "The Iraqi government sees Brazil as a great partner for reconstruction and development. In addition, Petrobras has top technology in all oil sectors. The obstacles for cooperation with Iraq have been removed by the Iraqi government. Last August, Iraq opened the possibility for international companies to participate in all government direct sales by submitting bids.

Continued on page 6

tract with Trinidad and Tobago's state-owned oil company, **Petrotrin**, to explore for oil and gas and activate idle offshore wells in the Galeota Block, reported the *Trinidad and Tobago News and Express*. The deal includes exploration of seven wells in the 12,000 hectare block off Trinidad's east coast, revitalization of the

“We have a good background in revitalizing fields and that's what we plan to do at Galeota.”

— Simon Gill

Trintes oilfield and the renovation of four offshore platforms, Reuters reported. "We have a good background in revitalizing fields and that's what we plan to do at Galeota ... and hopefully increase the existing reserves," Bayfield CEO Simon Gill said at the signing ceremony. He added that the company hopes to boost production at the offshore wells from 750 to 3,000 barrels per day, according to the *News and Express*. The company anticipates starting drilling during the second quarter of this year. Trinidad and Tobago Energy Minister Conrad Enill, who was present at the ceremony, said despite the global economic downturn "there are companies who recognize the cyclical nature of the business and are truly interested in carrying their exploration agendas forward."

Ecuador Auctioning 1 Million Barrels of Seized Crude

Ecuador will auction 1 million barrels of crude seized from French oil company **Perenco** on May 15, state oil company **Petroecuador** said Tuesday, reported Reuters. The sale could yield revenue of between \$35 and \$50 million for the Ecuadorean government, according to local daily *El Comercio*. Earlier this year, Ecuador ordered the crude be seized over a dispute involving \$327 million it says Perenco owes under a windfall tax law passed in 2006. The French company has filed suit in the World Bank's International Center for Settlement of Investment Disputes to get the embargo lifted, and a hearing on the claim was held in Paris last month. Ecuador's attorney general, Diego Garcia, said the government has not yet received a decision regarding the case. [Editor's note: see related Q&A in the March 23-27 [issue](#) of the *Energy Advisor*.]

Political News

Chavez: Venezuela Will Restore its Ambassador to United States

Venezuelan President Hugo Chavez said Saturday that his country will restore its ambassador to the United States, the Associated Press reported. Chavez made the comments after meeting US President Barack Obama and US Secretary of State Hillary Clinton in Trinidad and Tobago during the three-day Summit of the Americas, which ended Sunday. In September, Chavez expelled the US ambassador to Venezuela, Patrick Duddy, in a move of solidarity with Bolivian President Evo Morales after Morales booted the US ambassador in Bolivia. But on Saturday, Chavez said he will name Roy Chaderton, Venezuela's current ambassador to the Organization of American States, as Venezuela's new ambassador to the United States. Chavez and Obama met for the first time on Friday when Obama walked across a meeting room at the summit to shake hands with Chavez. Obama later gave a

By the Numbers

A Look at Latin American Data by the Dialogue's Claudio Loser

How Much of the G-20's Gift Will Go to Latin America?

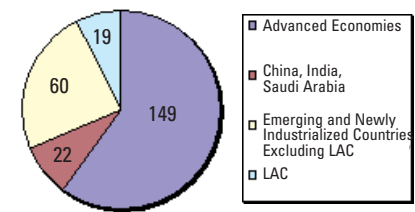
WASHINGTON—The beginning of the northern spring has brought considerable hope to Latin America, even as much of it is entering the southern autumn. The meeting of the G-20 early in the month brought about a commitment to a massive mobilization of resources; the IDB meeting in Medellin, and the subsequent Emerging Market Forum meeting in Bogota, focused attention on Latin America; the spring meetings of the International Monetary Fund and the World Bank will seek to formalize the commitment; and the Summit of the Americas in Trinidad brought the US and the rest of the region face to face to resolve some major multilateral and bilateral issues. There are abundant articles on these subjects, but not much has been written about the amounts of money the region can expect to get. The answer to this is both positive and negative. The region's prospects for financing seem good, but the money will be available over several years, and will not fully offset the loss of private flows.

The charts included provide a preliminary estimate of what the region will be able to receive. They include all the elements of the package, mostly linked to the new and enhanced role of the previously presumed moribund IMF. The numbers cover: (1) the possible increase in the amount of special drawing rights (SDRs), the international money invented 40 years ago and assigned proportionally on the basis of IMF quotas or shares; (2) possible new lending by the IMF and other international financial institutions, assuming that China, India and Saudi Arabia will not borrow; (3) trade-related financing by developed countries, which in large part can be expected to finance exports to other developed countries. On this basis, Latin America and the Caribbean could have the potential to obtain \$180 billion in loans, or about 5 percent of the region's GDP.

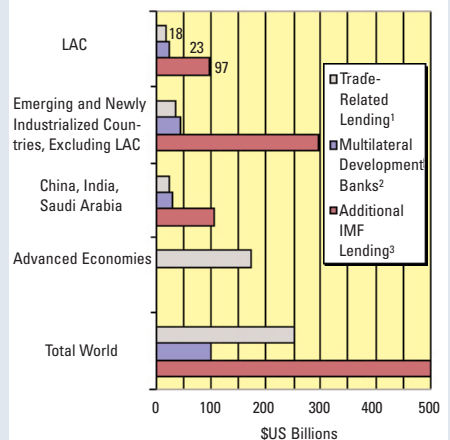
This is clearly a substantial amount, but we have to keep in mind a few factors: the approval and execution of the estimated commitments and their disbursement will take time, so that disbursements will occur

SDR Allocation

Based on Existing IMF Quotas (in \$US Billions)

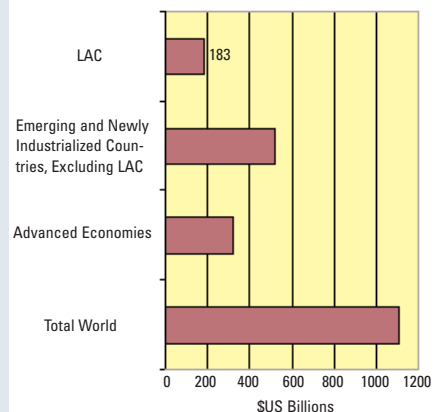


G-20 Lending



¹Trade-related lending on the basis of GDP, including advanced economies ²Multilateral development bank lending on the basis of GDP, excluding advanced economies ³Additional lending by IMF on the basis of existing quotas, excluding advanced economies

Total G-20 Financing



Source: IMF; G-20 declaration, April 2009; author's own estimates

Continued on page 6

brief response when reporters asked him about his encounter with the Venezuelan president: "I said, 'Como estas?'" Chavez gave a longer account of his exchange with Obama. "We shook each other's



Obama greets Chavez.

Photo: Venezuelan Government.

hands like gentlemen, and it was predictable this would happen," Chavez said. "I'm grateful for his gesture." Chavez also said he gave the US president a simple message in English: "I want to be your friend." Chavez also announced during the summit that **Citgo**, the US subsidiary of Venezuelan state oil company **PDVSA**, would donate an island it owns to the US state of New Jersey for a nature preserve. "This highlights the commitment of the Venezuelan people to environmental protection and stronger bonds of friendship between the peoples of Venezuela and the United States," Citgo said in a press release.

Interpol Issues Warrant for Chavez Opponent Seeking Asylum in Peru

Interpol issued an arrest warrant Thursday for Manuel Rosales, an opponent of President Hugo Chavez, who fled to Peru and is seeking political asylum, following an order by a Venezuelan court on Wednesday for his arrest, reported the Associated Press. The order said Rosales "has shown he isn't willing to present himself" in court on corruption charges. Rosales denies any wrongdoing and says he is a victim of political persecution. On Thursday, a court also issued a warrant for the arrest of Eduardo Manuitt, a current opponent but former ally of President Hugo Chavez, who is accused of pocketing money connected to the public purchases while governor of Guarico state. Manuitt denies the allegations, saying they are politically motivated.

Economic News

IMF: Latin America, Caribbean Economies Will Contract 1.5% in '09

The economies of Latin America and the Caribbean will contract 1.5 percent in 2009 as commodity prices fall along with tourism and the demand for exports, the International Monetary Fund said in a report released Wednesday, according to Bloomberg News. Mexico will be among the countries hardest hit because of its close connection to the United States, the IMF's World Economic Outlook report said, adding that Latin American countries that rely heavily on commodities will continue feeling pain this year. "The decline in commodities prices is pounding large economies in the region—Argentina, Brazil, Chile, Mexico and Venezuela," said the report. "The economic slump in advanced economies—especially in the United States, the region's largest trading partner—is depressing external demand and lowering revenue from exports, tourism and remittances." At the beginning of the global financial crisis, governments and companies were in "relatively strong" positions and the banking sectors in Latin America

“The decline in commodities prices is pounding large economies in the region.”

— *International Monetary Fund*

and the Caribbean did not have as tight links to banking systems in "advanced countries," so the region's shrinking growth rate will not be as pronounced as in emerging countries in Europe, according to the report. The IMF also predicted inflation in the region will likely slow to 6.6 percent this year, down from 7.9 percent last year. The current account deficit for the region will also grow to 2.2 percent of gross domestic product this year, as compared to 0.75 percent last year. The IMF is forecasting a rebound in the region's economy in 2010 with a economic expansion of 1.6 percent.

POLITICAL & ECONOMIC BRIEFS

Fidel Says Obama 'Misinterpreted' Raul's Call to Discuss Everything

In an editorial published Tuesday, Fidel Castro said US President Barack Obama "misinterpreted" the declaration of his brother, Cuban President Raul Castro, that Cuba is willing to engage in talks with the US on "everything," including human rights, freedom of the press and political prisoners. The former Cuban president said Raul's statement should not be interpreted as a willingness to pardon political prisoners in return for the release of five Cubans held by the United States, according to a column posted on Cubadebate.cu.

Colombia Seeks New IMF Loan for \$10.5 Billion

Colombia on Monday requested a one-year \$10.4 billion contingency loan from the International Monetary Fund, becoming the second country in Latin America, after Mexico, to seek the IMF's new Flexible Credit Line. Central Bank Governor Jose Dario Uribe said that once the loan is approved, "access to the funds would not be subject to any conditionality by the IMF," according to the Central Bank's Web site. In a statement, IMF Managing Director Dominique Strauss-Kahn said he planned to seek rapid approval of the loan.

Low Turnout, Violence in Haiti's Senate Election

Low voter turnout and sporadic violence marked partial Senate elections held Sunday in Haiti, reported wire services. Haitians were supposed to choose 12 candidates for the 30-member Senate, but the country's electoral council said Thursday that results would not be released until the beginning of next week, reported EFE.

Featured Q&A*Continued from page 3*

But one unique aspect of Iraqi commercial culture is that Iraqi import companies don't like to travel to find new products. They prefer to go to international trade fairs in Iraqi territory, like one in April in Najaf, for example. Therefore, the way to increase Latin American involvement is to participate at all international trade fairs in Iraq. Latin American countries, in particular Brazil, have many products of interest to Iraqi traders. For the Iraqi people, Brazil is a wonderful supermarket of sorts, with products at very competitive prices. Trading with Iraq is very safe for international companies because the country reinserted itself into the international economic community and follows all rules of commerce."

A Guest Comment: Valérie Marcel: "National oil companies in Latin America have a lot on their plate at home. They are tackling increasingly complex reserves. Petrobras plans to double its production output by 2020 thanks to the massive, offshore 'pre-salt' region. The domestic agenda is ambitious and international ventures will take the back seat—if only because of strained human resources. Moreover, though Petrobras runs a tight ship and has an excellent reputation, its technological deep offshore expertise is not what is most needed in the Persian Gulf right now, where the immediate challenge is heavy oil, sour gas, and onshore oil and gas in Iraq. As for PDVSA and Pemex, the two NOC

giants have big investment challenges. Pemex must offset depletion in mature reservoirs and PDVSA is straining to

“Petrobras has the potential to provide useful guidance (in Iraq, especially) on how to effectively mix national interests with company growth.”

— R. Kirk Sherr

maintain production capacity. Their international investments will focus on securing refining outlets for their crude (especially Venezuela's heavy crude) and these ventures will not take them too far from their shores."

R. Kirk Sherr is a member of the Energy Advisor board and CEO of Arrakis Geodynamics Ltd.

Jalal Chaya is president of the Brazil-Iraq Chamber of Commerce & Industry.

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By the Numbers*Continued from page 4*

over more than two years; the recent estimates for debt service payments for the region are in the order of \$200 billion, of which more than half are official obligations; and private capital inflows can be expected to decline by at least \$50 billion, with a significant fall in foreign direct investment. With exports declining at a fast rate, the financial outlook for the region does not seem that promising. Still, the package reflects the right policy approach, with the public sector acting as a countercyclical force at a time of financial catastrophe. Many may say that the amounts are not enough, but this is certainly a good beginning. Let's hope that policy makers do not deviate from the principles of the G-20 communique, as they become embroiled in domestic—and possibly petty—politicking.

Claudio Loser is a Senior Fellow at the Inter-American Dialogue and former head of the Western Hemisphere Department at the International Monetary Fund.