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FEATURED Q&A

Could Petrobras Help Pemex Boost Flagging Oil Production?

Q During a visit to Brazil last month, Mexican President Felipe Calderon said Mexican state oil company Pemex could benefit from greater cooperation with Brazil's state oil firm, Petrobras, and that Brazilian expertise could help Pemex boost declining output. Should Calderon's statements be taken at face value, or are they merely wishful thinking? What would such a partnership look like, given provisions in Mexico's constitution that limit foreign investment in the oil sector?

A Joseph Dukert, independent energy analyst based in Bethesda, Md.: "President Calderon is both a realist and an innovator. Pemex needs to develop experience in very-deep-water drilling to maintain its position as a leader in oil and gas production. Petrobras has a solid record of accomplishment in deep water off its own coast, and few efforts could benefit Pemex more quickly or surely than cooperation with Brazil's national oil company on a specific deepwater project in Mexico's own backyard—the Gulf of Mexico. Pemex and Petrobras could collaborate in a bid on leases offered by the US Department of the Interior for exploration and/or production in the US portion of the Gulf. Since this would not involve foreign ownership of Mexico's national resources, the venture would clearly be in accord with its constitution. In all probability, the closest market for production from a successful venture

would be the United States. US domestic production would technically be boosted. Pemex and Petrobras might even choose to invite investment in a significant project of this type from a Canadian company such as Nexen (which already has deepwater gulf experience and has exchanged information modestly with Pemex under a memorandum of understanding) and an appropriate US hydrocarbon company. It could be a win-win-win-win proposition. From the Mexican standpoint, there is something of a precedent for this type of arrangement at

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Ecuador, Colombian Ministers to Discuss Renewed Ties

Ecuadorean Foreign Minister Fander Falconi said Monday that he will discuss re-establishing diplomatic ties with Colombia in a meeting next week with that country's foreign minister. See story on page 3.

File Photo: Ecuadorean Government.

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NEWS BRIEFS

Obama Extends Cuba Embargo for One Year as Expected

As expected, US President Barack Obama has extended the United States' embargo against Cuba for one year, the White House said Monday, the Associated Press reported. The move is largely symbolic because US law requires Congress to take any action to end the embargo. Obama, who has eased restrictions on Cuban-Americans' travel and remittances to the island, has said he will not seek the embargo's end unless Cuba takes on economic and democratic reforms.

Petrobras Reports New Oil Find

Brazilian state oil company **Petrobras** announced a new oil find in the so-called pre-salt area as CEO Jose Sergio Gabrielli visited the United States to discuss proposed new oil regulations and plans to recapitalize the company, Bloomberg News reported. Petrobras discovered oil in the BM-S-9 block in the Santos Basin in a joint venture with BG Group and Repsol. In New York, Gabrielli said the company is in a "fantastic moment," and that he expects the new regulations to pass Brazil's congress as early as February.

Tensions May Cost Colombia \$3 Bn in Exports to Venezuela

Colombian exports to Venezuela could fall by up to \$3 billion in 2009, the former head of Colombian-Venezuelan business group Cavecol said in an interview with Colombia's *Portafolio*. Moises Bittan said the deterioration of relations between the two countries could shave 400,000 jobs from Colombia's economy. Venezuelan President Hugo Chavez has said he wants to decrease his country's reliance on Colombian imports.

Political News

Arias to Meet With Honduran Presidential Candidates

Costa Rican President Oscar Arias, the lead mediator attempting to solve Honduras' political crisis, said Monday that he will meet with Honduran presidential candidates in an attempt to get their support for restoring ousted President Manuel Zelaya, the Associated Press reported. Arias plans to meet Wednesday with at least four of the six presidential hopefuls, including the leading contenders, Porfirio Lobo Sosa and Elvin Santos. Lobo Sosa and Santos have opposed reinstating Zelaya as president. Arias said he will stress that the Nov. 29 election will not be recognized if it happens under the country's coup-installed government. "The idea is to speak with them frankly," Arias told reporters in San Jose, according to the AP. "What good is

there for a presidential hopeful in Honduras to win the elections if his future government will not be recognized by the international community and the sanctions will continue or even increase?" Arias said he maintains hope that Zelaya and de facto President Roberto Micheletti will agree to a compromise Arias formulated weeks ago. The compromise would include returning Zelaya to office until his term ends in January, but with fewer powers than he had before the June 28 coup that deposed him. Micheletti has refused to accept the plan. The United States and several other countries have said they will not recognize the winner of the November election if held under the de facto government. Last week, the United States revoked the visas of 18 Honduran officials, including Micheletti.

Ecuador, Colombia Officials to Discuss Re-Establishing Relations

The foreign ministers of Ecuador and

Featured Q&A

Continued from page 1

Deer Park, Texas, where Pemex and Shell have long been joint owners of a refinery especially adapted to process heavy and high-sulfur Mexican crude, with gasoline and other refined products becoming available to Mexico."

A **George Baker, director of Energia.com in Houston:** "On Aug. 16, President Calderon was in Brazil accompanied by Energy Minister Georgina Kessel (but, ominously, not also by the head of Pemex, Jesus Reyes Heróles). [Editor's note: Calderon later named Juan Jose Suarez Coppel to replace Reyes Heróles as Pemex CEO.] Calderon was promoting the idea that there could be a strengthened relationship between Petrobras and Pemex on the scientific, technological, academic and operational fronts. The only dimension that is missing, which is the only dimension that would interest Petrobras and the Brazilian government, is the commercial one. President Lula in reply hinted at the

possibility of collaboration in Mexico, Brazil or third countries (such as the United States in the Gulf of Mexico). The following day, there was sharp reaction in the Mexican press from members of the Energy Committee of the Mexican Senate: a PRD senator, Graco Ramirez, noted that Petrobras has never agreed to sell technology except in exchange for an upstream contract. Meanwhile, in a report released July 16, Mexico's Competitiveness Institute (IMCO) called for the opening of exploration and production to private investment; counter-intuitively, this radical proposal was completely ignored in the Mexican press. Reviewing the IMCO data for Brazil and Norway (the two countries IMCO favors as models for Mexico to emulate), we found only scant and indirect evidence that would suggest that Mexico is prepared as a country to follow in the steps of either country. In summary, no new Petrobras activity in Mexico is expected under the existing policy framework."

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Colombia plan to meet next week to discuss re-establishing diplomatic relations, Ecuadorean Foreign Minister Fander Falconi told reporters Monday in Quito,



Bermudez

File Photo:

Municipality of Arauca.

according to the Associated Press. The talks, on the sidelines of a meeting of the United Nations General Assembly in New York, will mark the first time the two countries have set a date to discuss mending diplomatic ties since they were severed a year and a half ago. Ecuador cut diplomatic ties to Colombia in March 2008, days after Colombia attacked a base of the Revolutionary Armed Forces of Colombia, or FARC, inside Ecuador. The attack on the rebel base killed 25 people, including FARC commander Raul Reyes. Falconi said the meeting is just one step toward renewed relations. "We should be cautious at this moment," said Falconi. "We are going to start a dialogue, but the two societies, the two peoples, should understand that we are not going to immediately re-establish diplomatic relations." In Bogota, Colombian Foreign Minister Jaime Bermudez said the meeting with Falconi is among the "discreet" talks that the Organization of American States and US-based Carter Center are helping to advance.

Company News

Brazilian Homebuilder Gafisa May Sell Domestic Bonds This Year

Brazilian homebuilder **Gafisa** may sell domestic bonds this year in order to repay debt while taking advantage of interest rates, which are at record lows, Chief Financial Officer Duilio Calciolari told Bloomberg News in an interview Monday. "Because liquidity is increasing, we're seeing more options for the company, like issuing additional bonds," Calciolari said in New York. "It's a matter of opportunity. Now that we have lower costs, we can refinance our short-term

debt." Last month, Gafisa, the country's second-largest homebuilder, sold 250 million reais (\$US 137 million) in domes-

income housing revenue could account for 60 percent of the company's revenues next year, up from its current level of 50

tic two-year floating rate notes, according to Bloomberg data. By next June, the company will have maturing debt totaling 509 million reais. He added Gafisa's low-

percent. He said sales could increase 25 percent next year. "There's a huge demand for housing, especially for the low-income sector," he added.

Subscriber Notice

Inter-American Dialogue Discussion on

Ecuador's Economic Development, Challenges and Outlook

with

Nathalie Cely

Ecuador's Minister of Coordination for Production and former Minister of Coordination for Social Development

and

Mauricio Pozo

Former Ecuadorean Minister of Finance and Executive President of economic consulting firm Multienlace

Friday, September 18, 2009

8:30 – 10:00 a.m.

Inter-American Dialogue

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Washington, DC

RSVP to meetings@thedialogue.org

Please include your name and affiliation.

“There's a huge demand for housing.”

— *Duilio Calciolari*

Featured Q&A*Continued from page 2*

A **Gianna Bern, president of Brookshire Advisory and Research in Flossmoor, Ill.:** "Certainly there is operational, technological and scientific cooperation that can be fostered between both companies. Pemex has much to gain from a strategic alliance with Petrobras. While I believe President Calderon's intentions are indicative of genuine cooperation, one can't help but appreciate some of the fundamental differences between the two companies, which remain at the very core of their existence. Petrobras and Pemex are both at different crossroads in their history. This is a tale of two oil companies, one facing extraordinary opportunity and the other facing some significant near-term challenges. The mixed capital model that Petrobras has embraced has served it well. Equity funding has been an exemplary resource to Petrobras, enabling it to grow, make acquisitions and become a deepwater expert. Having access to equity funding is a strategic advantage, and it should be readily apparent to Pemex that there is much to be gained in transforming its ownership and capital structure. It doesn't appear that Mexico's constitution will permit such an option. Fundamental long-term

changes are still necessary in Pemex's ownership structure, tax structure and regulatory regime in order to grow production and compete globally. In a declining crude oil environment, national oil companies are at a strategic disadvantage. Pemex needs the financial resources to invest in its own infrastructure, technology, and production. The tax

“This is a tale of two oil companies, one facing extraordinary opportunity and the other facing some significant near-term challenges.”

— *Gianna Bern*

demands on Pemex are still extraordinarily high. Therein lies the fundamental differences, which are more pervasive than operational or technological know-how that can be gained from an alliance with Petrobras."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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Latin America Advisor

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Latin America Advisor is published every business day, except for major US holidays, by the Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

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