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INTER-AMERICAN DIALOGUE'S

LATIN AMERICA ADVISOR ▸ ENERGY

FEATURED Q&A

Can Trinidad & Tobago Attract FDI to Replace Falling Reserves?

Q **Speaking at an annual energy conference in Trinidad and Tobago last month, Robert Riley, the CEO of BP's local unit, said the country needs between $8 billion and $10 billion for an aggressive exploration program to sustain current levels of oil and gas production. Energy Minister Conrad Enill recently unveiled more attractive terms for companies looking to partner with state energy firm Petrotrin in order to "encourage new investment while allowing current production levels to be sustained." Is Enill's plan good enough to bring in significant new foreign investment? Will it be enough to reverse a recent decline in Trinidad and Tobago's proven natural gas reserves?**

A **Anthony T. Bryan, senior associate at the Center for Strategic and International Studies and a senior fellow at The University of the West Indies in Trinidad and Tobago:** "Over the past 100 years, the energy sector in Trinidad and Tobago has been successful in attracting exploration activity. The sector has also demonstrated full acceptance of the critical need for foreign direct investment and for expertise and risk management in exploration. The statements by both Robert Riley, CEO of BPTT, and T&T Energy Minister Conrad Enill indicate that they are reading from the same history book, i.e. FDI for further exploration and a fiscal regime that can maintain T&T's global competitiveness. Current concerns about attracting sufficient FDI and reversing recent declines in T&T's proven natural gas reserves should be tempered with optimism. With respect to oil exploration, companies like BpTT, British Gas (T&T) and others are committed to continuing active exploration programs on terms that can ensure a satisfactory balance between exploration risk and potential reward. Even a new player on the T&T scene, Petro Andina, is interested in investing in a drilling program that seeks out oil over natural gas. In the case of nat-

Continued on page 6

Venezuela: Chevron and Repsol to Head Carabobo Projects

Venezuelan President Hugo Chávez reviews a map of the country's Orinoco Belt, after the government chose consortiums headed by Chevron and Repsol to develop two projects in the area.

Photo: Venezuelan Government.

Inside This Issue

FEATURED Q&A: Can Trinidad & Tobago Attract FDI to Replace Falling Reserves? 1

Chevron- and Repsol-led Consortia to Develop Carabobo Projects 2

Peru's Savia Plans $2.5 Billion in E&P Investments Through 2017 2

Brazil Biofuel Consumption Up 2.7 Percent in 2009 2

Earnings Results: BG Group and Chilean State Oil Company ENAP 3

France's Total Could Invest $500 Mn in Bolivia Gas Well 3

Argentina Suspending Operations at Nuclear Plant for Maintenance 3

The Dialogue Continues: When Will Mexico's 2008 Energy Reforms Pay Off for Pemex? 4

Political and Economic News: Costa Rica, Haiti and More 4-5

ENERGY SECTOR BRIEFS

Brazil Biofuel Consumption Up 2.7 Percent in 2009

Biofuels consumption in Brazil climbed 2.7 percent in 2009 from the previous year, totaling 108.8 billion liters, the National Petroleum Agency said Tuesday. Growth was led by a 23.9 percent increase in the consumption of anhydrous ethanol, sold as pure ethanol at the pump, while use of hydrous ethanol for mixing with gasoline increased 0.9 percent, according to a press release. ANP said biofuels made up 22.3 percent of vehicular fuels in 2009, up from 19.5 percent the previous year.

Italy's Saipem Wins $345 Million Refinery Contract from Pemex

Mexican state oil company **Pemex** said Monday it awarded Italian engineering firm **Saipem** a contract worth $345 million to build units capable of producing more environmentally friendly gasoline at two of its refineries. Saipam's offer beat out competing bids from South Korea's **Samsung** for $357 million dollars and U.S.-Mexican joint venture **ICA-Fluor** for $369 million. The projects aim to reduce the sulfur content in gasoline.

Ecuador President Extends Electricity Rationing

Ecuadorean President Rafael Correa on Monday signed a decree extending electricity rationing in the drought-stricken country for 60 days, local daily *El Universo* reported. Electricity Minister Miguel Calahorrano said at a press conference that the previous rationing program, which started in November and ended Jan. 20, led to economic losses of between $244 million and $272 million. [Editor's note: See related Q&A in Jan. 11-15 issue of the *Energy Advisor*.]

Oil & Gas News

Chevron- and Repsol-led Consortia to Develop Carabobo Projects

Venezuelan national oil company **PDVSA** on Wednesday signed long-awaited agreements with foreign firms to develop oil fields in the Orinoco Belt. A consortium made up of **Chevron**, **Mitsubishi** and **Inpex** of Japan won the Carabobo 3 block with a $500 million bid for drilling rights and a $1 billion pledge for payments and financing to PDVSA, Dow Jones reported. A consortium led by Spain's **Repsol**, which included **ONGC** of India and **Petronas** of Malaysia, paid a $1.05 billion signing bonus for another block, plus $1.05 billion to PDVSA for financing, according to reports. The two winning consortia will each enter into a 60-40 percent minority arrangement with PDVSA. Nineteen companies purchased the $2 million data pack to consider participating in the bids, but the government did not receive any offers to develop Carabobo 2, the third offering, according to reports. Analysts said political uncertainty and a lack of control may have deterred investors. The agreements were the first major deals to attract foreign firms since socialist President Hugo Chávez renegotiated terms with international oil companies nearly a decade ago. While the $10 billion cost of the projects is high, the technology to upgrade Carabobo's heavy oil already exists. [Editor's note: See related Q&A in the Dec. 14-18, 2009 issue of the *Energy Advisor*.] Also in Venezuela, Chávez on Monday used his new radio talk show to declare an "electricity emergency," while the country faces continued power rationing after a drought depleted hydroelectric reservoirs, Reuters reported. The declaration will allow officials to take more forceful actions to confront the power crisis, including stricter electricity rationing and the seeding of clouds in efforts to produce rain, Chávez said.

The two winning consortia will each enter into a 60-40 percent minority arrangement with PDVSA.

Peru's Savia Plans $2.5 Billion in E&P Investments Through 2017

Peruvian oil and gas firm **Savia** said last Thursday it plans to invest $2.5 billion in exploration and production in the country over the next seven years in an effort to boost output to 50,000 barrels of oil equivalent per day (boed) from the 18,000 projected for this year. In a press release, Savia said its domestic oil and gas production averaged 13,000 boed in 2009, while net profit totaled $23 million, surpassing company expectations by 39 percent. Savia, which is jointly owned by state oil companies **Ecopetrol** of Colombia and **KNOC** of South Korea, is trying to repair the tarnished image of Petro-Tech Peruana, a predecessor company linked to the "petroaudio" scandals that rocked Peru in 2008. "It's the beginning of a different kind of management, with greater investment, personnel training and generation of job opportunities in the areas where we have a presence," Nelson A. Castañeda, the company's vice president of operations, said in a statement upon the company's relaunch. Last February, Ecopetrol and KNOC paid $900 million to purchase Petro-Tech from U.S.-based **Offshore International Group**. Savia currently has approximately 1,400 wells at five major onshore and offshore production areas in Peru, 11 exploration blocks and a domestic oil and gas commercialization business.

An offshore oil rig in Peru.

File Photo: Savia.

France's Total Could Invest $500 Mn in Bolivia Gas Well

French energy company **Total** has launched a natural gas exploration project in Bolivia that could lead to an investment of some $500 million, Reuters reported Tuesday. In a ceremony broadcast on state television, the manager of Total's Bolivian subsidiary, Jean Daniel Blasco, said the investment would occur in Total's Incahuasi block. "If there are positive results (with the drilling), we'll be able to develop the field ... with an investment of around $500 million," Blasco was quoted as saying. Total will invest $70 million to drill a well before deciding whether to invest further, according to the report. In 2008, Bolivian President Evo Morales nationalized the country's hydrocarbons sector, putting a hold on international investment plans. Since then, state-run energy company **YPFB**, tasked with managing the industry and increasing output, has been beset by scandals and leadership changes. [Editor's note: See related Q&As in the Feb. 20, 2009 and Oct. 16, 2009 issues of the *Energy Advisor*.] Last month, YPFB president Carlos Villegas said the company has identified funding sources for 48 percent of its $7.6 billion, five-year investment plan, and that it is seeking funds for the remaining 52 percent. According to Villegas, an additional $3.7 billion will be invested by foreign oil companies.

Earnings Results

BG Group Sees Earnings Drop 15% in Fourth Quarter, Sets Sights on Brazil

London-based **BG Group** last Friday reported a 15 percent drop in fourth-quarter earnings on lower oil and gas prices worldwide, although strong performance at its **Comgás** unit in Brazil and high hopes for offshore gas projects there means the company is increasingly looking to Brazil to drive future growth. BG reported earnings of 592 million pounds ($U.S. 924 million) for last three months of 2009, down from 695 million pounds the previous year. Total fourth-quarter operating profit at Comgás increased to 105 million pounds from a 15 million pound loss a year ago on recovery of past gas costs, which offset lower natural gas demand in the power and vehicle segments. BG said production volumes increased 8 percent worldwide in the fourth quarter, which also saw positive test results from two wells in Brazil's offshore Santos and Tupi basins. "Now, the pre-salt is generally thought of as an oil play. However, it's also an important gas play," CEO Frank Chapman said on a conference call with analysts. "These are material gas resources adjacent to a large and developing gas market, where we are present through our Comgás interests." BG Group estimates its Santos Basin holdings contain 3 billion barrels of oil equivalent (boe), and the company is investing $20 billion to develop the area, according to Chapman. He said production should ramp up during the first half of this decade, reaching more than 400,000 boe per day by 2020.

Chile's ENAP Reports Highest Profit in 15 Years at $242 Million

Chilean state oil company **ENAP** on Monday reported net income of $242 million for 2009, its highest in 15 years, in a stunning turnaround from a billion-dollar loss the previous year. After deducting a special 40 percent tax on state-owned companies' profits, ENAP's net income in 2009 amounted to $200 million. This time last year, ENAP was reeling from a $1.1 billion loss due to high international oil and gas prices and exchange rate losses, trends which were completely reversed this time around. "There are only a few cases where losses of $1 billion have been reversed in just 12 months while, at the same time, correcting the strategic direction to return to the offensive in the market and continue growing," CEO Rodrigo Azócar said at a press conference. He added that in addition to turning back losses, the state-owned company had been able to "restore the confidence of our customers, suppliers, banks and investors." The average costs of crude oil, diesel and gasoline were each down by more than 30 percent from 2008 levels, driving down the cost of the company's sales by 47.3 percent. That helped boost ENAP's gross margin to $278 million from a negative margin of $744 million the year before, while EBITDA increased by more than a billion dollars to $546 million.


Azócar

File Photo: ENAP.

Power Sector News

Argentina Suspending Operations at Nuclear Plant for Maintenance

Argentine officials said Monday they would suspend power generation at the 650 megawatt Embalse nuclear power plant for six weeks starting late next month for routine maintenance at the facility, Dow Jones reported. Workers recently completed the first phase of a two-year project to extend the Embalse plant's life by as much as 30 years, a spokeswoman from Argentina's nuclear power company told the wire service. Embalse and the Atucha I nuclear plant provide approximately 7 percent of Argentina's electricity. Work on Argentina's third nuclear power plant, Atucha II, is slated to be completed by the end of this year, Planning Minister Julio De Vido told reporters last week. De Vido had previously said the plant would not be finished until the first half of 2011. The Atucha II plant will have a capacity of 700 megawatts and will provide 3 percent of the country's power, according to officials. The plant had originally been planned to become operational in 1987, but political wrangling stalled the project. Argentine officials intensified their nuclear power program nearly three years ago in the midst of energy supply problems. The country began experiencing shortages of natural gas for conventional power plants in 2004. Argentina currently imports natural gas from Bolivia and liquefied natural gas from Trinidad and Tobago.

Political News

Chinchilla Elected First Female President of Costa Rica

Laura Chinchilla of the governing Liberal National Party was elected Costa Rica's first female president Sunday in a landslide first-round victory. Chinchilla won 47 percent of the vote, more than 20 percentage points ahead of her closest rival. Ottón Solís of the Citizens' Action Party garnered 25 percent of the vote and Otto Guevara of the Libertarian Movement received 21 percent. "Today we are making history," Chinchilla said in her victory speech, the AP reported. "The Costa Rican people have given me their confidence, and I will not betray it." Solís and Guevara conceded defeat on Sunday. Chinchilla, 50, has vowed to pursue economic policies similar to those of current President Óscar Arias, who has boosted trade with China and signed a free-trade deal with the United States. Arias' economic policies have helped shield Costa Rica from the worst of the global economic crisis and most citizens of the Central American country appeared unwilling to vote out the governing party while Costa Rica is enjoying relatively high wages, the highest life expectancy in Latin America, high literacy rates and a strong ecotourism industry. Critics of Chinchilla's party have argued the current administration has favored development too heavily over protecting the environment. [Editor's note: See related Q&A on Costa Rica's election in the Feb. 4 issue of the daily *Advisor*.]

Chinchilla during the campaign.

File Photo: Chinchilla campaign.

The Dialogue Continues

When Will Mexico's 2008 Energy Reforms Pay Off for Pemex?

Q Mexican newspaper *Reforma* last month published an article entitled "Less Crude and More Bureaucracy," which argues that the hydrocarbon reforms of 2008 have failed to improve the performance of state oil company Pemex. Have Pemex and the government sufficiently implemented the reforms, and when will the promised benefits begin to materialize? What should Pemex do this year to improve its declining crude production? What role can private companies, either through contracts or public-private partnerships, play in the future of Mexico's energy sector?

A David Shields, independent energy consultant based in Mexico City: "Mexico's oil reforms were insufficient and have been implemented half-heartedly. As a result, Pemex's performance has not yet improved in any way. President Felipe Calderón and the new Pemex administration, led by Juan José Suárez Coppel, are not turning things around. The problems are legal, structural and political. Mexican laws, derived from a Constitution which enshrines the state monopoly, provide no real openings to investors nor real certainty and protection to contractors, despite new procurement rules and regulations that Pemex claims (perhaps over-optimistically) will attract the interest of international oil companies in developing Mexican oilfields through performance-based contracts. Bureaucracy eliminates incentives within Pemex for its executives to be innovative and improve the way they work. They see innovation as a risk to their jobs. But innovation and risk-taking, in addition to technical expertise, will be essential for successful exploration at a company that has not discovered a major oilfield in 30 years. The political system has lost faith in improvement at Pemex and is little inclined to push further reforms, which now seem unlikely before 2013. There is no will to downsize and streamline. Better procurement rules and a new upstream regulator may help stem the decline in oil output in the medium term, but the umbilical cord between Pemex and the government needs to be severed so that Pemex can be a competitive company with the right business and technical criteria. For now, the outlook remains dismal."

Editor's note: The above is a continuation of a Q&A published in the Feb. 1-5 issue of the Energy Advisor.

Haitian Government Issues Conflicting Earthquake Death Tolls

Haiti's government on Wednesday announced widely conflicting totals for the number of people killed in the impoverished country's Jan. 12 earthquake, fueling the belief that no one really knows how many people perished in the catastrophe, the Associated Press reported. In a statement released by Communications Minister Marie-Laurence Jocelyn Lassegue's office, President René Préval said the government had buried 270,000 bodies after the quake. Later Wednesday, a press officer said the number actually was 170,000 and the earlier statement was wrong because of a clerical error. On Tuesday, Lassegue said the official death toll was 230,000. Regardless of the actual toll, the tragedy is one of the deadliest natural disasters in modern times. The government estimates a quarter of a million houses and 30,000 commercial structures collapsed, crushing people inside. Foreign governments and aid agencies have not released estimated death tolls. On Tuesday, the Unasur group of South American countries pledged to create a $300 million fund to help Haiti recover from its Jan. 12 earthquake, Reuters reported. The Washington-based Inter-

American Development Bank will be asked for a $200 million loan for the fund, and individual governments will raise another $100 million. Ecuadorean President Rafael Correa, who hosted the meeting, called for a sustained response based on "South-South cooperation." Peruvian President Alan García, considered a center-right leader in the region, offered $10 million for school reconstruction and water projects as part of the pact. Colombian President Álvaro Uribe also attended the Unasur meeting, his first visit to Ecuador since Ecuador broke diplomatic ties with Colombia in 2008.

Chilean President-Elect Names Businessmen, Academics to Cabinet

Chilean President-elect Sebastián Piñera on Tuesday named several businessmen, academics and others to his cabinet as he prepares to take office March 11. For finance minister, Piñera tapped economist Felipe Larraín, who will seek to attract investment to Chile through subsidies and tax breaks, Reuters reported. Piñera named the head of his campaign,

Larraín

File Photo: Piñera Campaign.

attorney Rodrigo Hinzpeter, as interior minister; Alfredo Moreno, a director of retail chain **Falabella**, as foreign minister; and a former minister from the rival center-left Concertación coalition, Jaime Ravinet, as defense minister. Ravinet had served in the same post between 2004 and 2006 under former President Ricardo Lagos. "I made pledges during the campaign, the first of which was to form a national unity government," said Piñera in announcing his cabinet, Reuters reported. "It will embody a new form of a government: a government that re-establishes the culture of doing things well, honestly and with a sense of urgency." Piñera has pledged to increase Chile's economic growth rate to 6 percent annually and create 1 million new jobs.

Economic News

Brazil Bank Chief Says He's Unlikely to Seek Goias Governorship

Brazil's central bank president, Henrique Meirelles, said Monday that he is not likely to run for governor of his home state of Goias, Bloomberg News reported. Meirelles made the statement during a lunch with investors in São Paulo. Meirelles' statement increases the likelihood that he will remain at the helm of the central bank through the end of this year. Inflation in Brazil fell to an annual rate of 4.6 percent in January. Just before Meirelles took office in December 2002, the inflation rate was 12.5 percent. Meirelles increased the country's benchmark interest rate to 26.5 percent in 2003 and has since cut it to a record low of 8.75 percent. Meirelles, 64, has led the central bank since Luiz Inácio Lula da Silva became president in 2003. In September, Meirelles joined the Brazilian Democratic Movement Party and said he would remain at his post at the central bank until making a decision on his political future in April. In December, Meirelles said he would consider a request from Lula to remain at the bank until the end of the year, when Lula's term ends.

Mexican Economy Secretary Expects Resolution to Trucking Dispute

Mexican Economy Secretary Gerardo Ruiz Mateos said Tuesday that the United States and Mexico would resolve a trade dispute over crossborder trucking by the end of the year, Agence France-Presse reported. Mateos made the comments at a joint press conference in Mexico City with U.S. Trade Representative Ron Kirk, who said the Obama administration was working with Congress and U.S. stakeholders to resolve the spat. Mexico slapped tariffs on nearly 90 U.S. products last year after Congress cut funding for a pilot program allowing Mexican truckers access to U.S. highways.

POLITICAL & ECONOMIC BRIEFS

Uruguayan Ex-Dictator Bordaberry Sentenced to 30 Years in Prison

An Uruguayan judge has sentenced former dictator Juan María Bordaberry to 30 years in prison for violating the constitution during a 1973 coup that led to a 12-year military dictatorship, the Associated Press reported Thursday. Prosecutor Ana María Tellechea told the AP Bordaberry had received the maximum sentence, although more details were due to be released. Bordaberry's sentence follows a 25-year conviction last October for ex-dictator Gregorio Alvarez.

Former Argentine President Leaves Hospital After Surgery

Former Argentine President Néstor Kirchner left a Buenos Aires hospital Wednesday, three days after undergoing emergency surgery to clear a blockage in a main artery that supplies blood to the brain, Reuters reported. "I'm very well," Kirchner, 59, told reporters as he left the hospital. Kirchner, the predecessor and husband of current President Cristina Fernández, is a member of Argentina's Congress and has been pressing for a plan to use reserves to pay government debt obligations.

Venezuela Names New Minister For Public Banks

The Venezuelan government last Friday named Humberto Ortega, the former head of the country's deposit insurance agency, as new minister for public banks and president of state-owned Banco de Venezuela, local daily *El Universal* reported, citing Venezuela's *Official Gazette*. Ortega succeeds Eugenio Vásquez, who is believed to have stepped down for health reasons, according to EFE.

Featured Q&A

Continued from page 1

ural gas, the Ryder Scott Reserves audit on T&T from 2007 indicated that even though the proven reserves have fallen, the probable and possible reserves have not. The key to maintaining all three reserves categories is increased exploration and development activity on the part of petroleum companies. For example, BpTT in November announced the start of gas production from the Savonette field with an expected yield of 600 standard cubic feet of gas per day, which will contribute to maintaining BpTT's total production level at more than 450,000 barrels per day of oil equivalent. Clearly, reserves can be moved from probable to proven by increasing development drilling. T&T is on the correct course."

Anthony Wilson, editor of the *Trinidad Guardian*: "I am not confident that the new fiscal incentives for oil and natural gas exploration and exploitation will be enough to reverse the slow but sure decline in oil production or boost gas production. In terms of energy resources, most of the low-hanging fruit of oil and gas blocks has already been assessed and all of the brighter prospects are in difficult or deep waters. Given the stiff global competition for capital in the energy sector, Trinidad will probably be required to give away the farm and all the cattle in order to attract the kind of serious money that is required to find and exploit the high-hanging oil and gas fruit. Such a policy would be difficult for the government to sell to the country especially as 18 months ago Prime Minister Patrick Manning was talking about increasing the country's tax share of its energy resources. When oil and gas

"Given the stiff global competition for capital in the energy sector, Trinidad will probably be required to give away the farm."

— Anthony Wilson

prices were climbing, Mr. Manning liked to give a story about a geologist predicting that the country would run out of oil. After a pause, Mr. Manning said the year in which the prediction was made was 1902, making the point that people have been predicting the end of the country's energy resources for years. This is not a story that Mr. Manning tells anymore. That may be because the island's energy resources may in fact have run dry in the context of the existing technology."

The Energy Advisor *welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

Q&A Index

A review of the Featured Q&As in the Energy Advisor *so far in 2010.*

January 8. ***Will IP Barriers Limit Green Technology in Latin America?***

January 15. ***How Can Andean Countries Better Secure Their Power Supply?***

January 22. ***Will Peru Harness Hydro to Become a Major Power Exporter?***

January 29. ***What Will Become of Ecuador's Yasuni-ITT Conservation Plan?***

February 5. ***When Will Mexico's 2008 Energy Reforms Pay Off for Pemex?***

Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting Editor Gene Kuleta at gkuleta@thedialogue.org.

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