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FEATURED Q&A

Have All Stakeholders Been Heard in Brazil's Pre-Salt Debate?

Q The Brazilian Senate has agreed to vote today on legislation that would make national oil company Petrobras sole operator in the offshore pre-salt area and restrict participation of other oil companies to production-sharing agreements. Has the timeline provided enough time for debate and discussion of the bill? Do the various stakeholders—environmentalists, businesses and civil society—feel they have had enough time to debate the substance of the legislation? How big a role does election-year politics play? Is the single-operator approach the right one for Brazil to follow?

A Luiz Paulo Vellozo Lucas, Brazilian Social Democracy Party member of Brazil's Chamber of Deputies from Espirito Santo state: "With his own succession in mind, President Lula chose the pre-salt reforms as a campaign issue. After two years of backdoor discussions, Planalto sent four bills to the National Congress under constitutional urgency. It's clear that there wasn't enough time for a debate with society. In brief, the government's proposal as a whole reduces the possibility of generating wealth for the Brazilian people—it makes Brazil poorer. The government also combined the pre-salt debate with the electoral calendar. This is not the best way to discuss a central issue for the future of the country. The discoveries in the pre-salt area require an increase in the government's

share of the wealth generated from oil, what the experts call 'government take.' It is possible and necessary to make such an adjustment. Incidentally, this could have been done within the rules of the current regulatory framework, with an increase of the special participation tax, or it could be done through a simple presidential decree. What's clear is that making Petrobras the sole operator is not the best option for the country. Changing the regulatory framework for oil exploration and production is the worst error in the Brazilian govern-

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Clinton Calls on OAS Member Nations to Readmit Honduras

U.S. Secretary of State Hillary Clinton, who met Monday in Lima with Peruvian President Alan García, called on Organization of American States members to readmit Honduras. See story on page 2.

Photo: State Department.

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NEWS BRIEFS

Mexican Authorities Find 77 Bodies in Abandoned Mine

Authorities in Mexico's Guerrero state have discovered 77 bodies in an abandoned mine, which they believe drug gangs used as a mass grave, BBC News reported. Police first found human remains in late May in the silver mine, which is near the city of Taxco. Among the victims identified was the head of a local prison. Some of the bodies have tattoos associated with drug gangs, according to police.

Head of U.N. Anti-Impunity Commission in Guatemala Resigns

The head of the United Nations' anti-impunity commission in Guatemala, known as CICIG, announced his resignation Monday, four months before the panel's initial mandate is set to expire. Spanish jurist Carlos Castresana said he would step down from the post as soon as a replacement is found, citing a campaign by "diverse criminal groups" to derail the commission's work by destroying its reputation and "sabotaging" its proposed legal reforms. Castresana also accused Guatemala's attorney general, Conrado Reyes, of links to organized crime, which Reyes denied.

Brazil's TAM Expects Better Q2 on Higher Demand in June

Brazilian airline TAM will have a better second quarter due to a recovery in demand for flights in June, the company's chief executive officer said Monday in an interview with Bloomberg News. CEO Libano Miranda Barroso said demand in June was up from weak levels in the two preceding months. He said the airline expects air traffic to grow 18 percent this year, adding that the World Cup will boost demand during the second quarter.

Political News

Clinton Calls on OAS Member Nations to Readmit Honduras

U.S. Secretary of State Hillary Clinton on Monday called on Organization of American States member countries to readmit Honduras, whose membership in the organization was suspended last year after then-President Manuel Zelaya was deposed in a coup. "Now it is time for the hemisphere as a whole to move forward and welcome Honduras back into the Inter-American community," Clinton told representatives meeting at the OAS General Assembly meeting in Lima. Clinton said Porfirio Lobo, who took office as Honduras' president in January, has done everything necessary in order for the Central American country to be readmitted to the organization. "We saw the free and fair election of President Lobo, and we have watched President Lobo fulfill his obligations," Clinton said, adding that Lobo has formed "a government of national reconciliation and a truth commission." OAS member nations want Honduras to return to the organization, but there is disagreement over whether Honduras must allow Zelaya to return to Honduras without being arrested, OAS Secretary General José Miguel Insulza said Monday in a speech, Bloomberg News reported. The issue has divided the hemisphere, with countries including Brazil, Venezuela and Ecuador opposing Honduras' return. "It is essential to create conditions for former president Zelaya to fully participate in the political life of Honduras," said Brazil's deputy foreign minister, Antonio de Aguiar Patriota, BBC News reported.

Economic News

Chile's Economy Experiences Sharpest Growth in 14 Years

Chile's economy expanded in April at its fastest pace in more than a decade, the country's central bank said Monday, Bloomberg News reported. The country's economic activity index grew 8.2 percent

in April as compared to March, the quickest monthly growth since 1996. The economy expanded 4.6 percent in April as compared to the same month last year, the fastest annual expansion since September 2008. April's growth came after the economy shrank at its fastest pace since 1996 in March after the country's massive 8.8-magnitude earthquake on Feb. 27. The quake caused the country

Chile's economy grew 8.2 percent in April, the quickest monthly growth since 1996.

nearly \$30 billion in damage. The steep expansion in April increased the possibility that the central bank on June 15 will hike interest rates for the first time in nearly two years. "The numbers are surprising and show how shallow the impact of the earthquake was and how short-lived," Alberto Ramos, an economist at **Goldman Sachs** in New York, told Bloomberg News. "The base was low, but the data still show a very significant recovery. Sentiment remains strong. It seems Chileans are used to being shaken about in earthquakes and they were very quick about fixing what needed to be fixed." Also, Chile's trade surplus declined in May to its lowest level since February 2009, the central bank said. The country's exports in May increased 32 percent in May while imports soared 68 percent, the bank added. Imports of consumer goods increased 60 percent year-on-year during the first three weeks of May and imports of capital goods surged 102 percent.

Morgan Stanley Cuts Forecast for Venezuela's Economy

Morgan Stanley on Monday cut its forecast for Venezuela's economy, saying it may shrink this year amid plunging investment and government restrictions on access to foreign currency, Bloomberg News reported Monday. Venezuela's economy is forecast to contract 6.2 percent this year, said Morgan Stanley, which previously predicted 0.3 percent growth

for the year. For next year, Venezuela's gross domestic product will shrink 1.2 percent, the New York-based firm said, cutting its previous forecast for 3.5 percent growth. "While most of Latin America, in line with the globe, has been in recovery mode since last year,



Chávez

File Photo:
Venezuelan Gov't.

Venezuela has seen an intensifying downturn in activity," Daniel Volberg and Giuliana Pardelli said in a report, Bloomberg News reported. "Our new baseline of at least three years of economic contraction suggests the risks to Venezuela's ability to honor its international financial commitments may be on the rise." Last year, Venezuela's economy shrank 3.3 percent after nationalizations led investment to dry up and oil revenue dropped amid falling production and OPEC production cuts. Morgan Stanley is forecasting a 28.1 percent plunge in investment this year and a 5.8 percent drop in private consumption. Last month, President Hugo Chávez shut down Venezuela's unregulated currency market, in which companies bought dollars outside of the government's exchange agency. Chávez also ordered the central bank to supervise the trading of dollar-denominated securities used to acquire currency at the government's official rate.

Company News

Pemex Accuses Companies of Buying Stolen Gas Condensate

Mexican state energy company **Pemex** has filed a lawsuit in federal court in Houston, accusing Germany-based **BASF Corp.**, U.S.-based **Murphy Energy Corp.** and three other companies based in the United States of knowingly purchasing natural gas condensate that had been stolen in Mexico, Bloomberg News reported. Pemex's production unit, Pemex Exploracion y Produccion, accuses defendants named in the suit of buying gas condensate stolen from the Burgos

Featured Q&A

Continued from page 1

ment's industrial policy since the approval in 1984 of the so-called market reserve for information technology, which imposed high taxes on imported

“It's clear that there wasn't enough time for a debate with society.”

— *Luiz Paulo Vellozo Lucas*

hardware and software. The numbers speak for themselves. With the 1997 petroleum law, Brazil created the National Petroleum Agency to administer the state's monopoly and open exploration and production to private investment. Now having to compete in the Brazilian market with close to 70 other companies, Petrobras today accounts for 94 percent of oil and gas production in the country and has seen its value increase eleven-fold in 12 years. During this period, annual investment in the sector went from \$4 billion to \$35 billion."

A **Fernando Siqueira, director of the Petrobras Engineers Association:** "The debate has been going on since the extent of the pre-salt reserves became known in 2007. In the last year, I've given more than 70 talks on this subject throughout

Brazil, leading to more than 20 study groups where we have discussed the issue with various segments of Brazilian society. There is a consensus that the current law is very bad for the country, since 100 percent of oil produced belongs to whomever produces it, with the obligation to pay the state up to 20 percent. There is a consensus that we need to get rid of the oil auctions, which don't benefit Brazil at all. There is also agreement that Petrobras can develop the pre-salt area on its own just fine. This option is backed up by facts; international experts, including Goldman Sachs, consider Petrobras to be among the 10 most viable companies on the planet, and the most viable oil company. So it won't be

“There is also agreement that Petrobras can develop the pre-salt area on its own just fine.”

— *Fernando Siqueira*

lacking in financial resources to invest. With respect to the three main technological bottlenecks—drilling, well completion and flexible lines—Petrobras was the first to demand and aid the development of these technologies, and is now the company most experienced with

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Field in northern Mexico. Since 2006, bandits have smuggled as much as \$300 million worth of condensate into the United States in hijacked tanker trucks, Pemex's lawsuit alleges. Pemex is seeking damages from BASF and Murphy for allegedly assisting and encouraging a criminal enterprise, said Pemex attorney James Teater. "As long as they see a market for stolen Pemex condensate, they will find a way to steal it," Teater said in court documents, referring to criminals in Mexico, who have hijacked tankers. Neither Frank Zeller, a Mexico City-based

representative for BASF, nor Matt Murphy, head of Murphy Energy, responded to e-mailed requests from the *Advisor* for comment. Over the past three years, Mexico's federal police and attorney general have been probing the thefts of fuel. Pemex has said said thefts cost the company 9.3 billion pesos (\$U.S. 722 million) in 2008. A third of that amount was connected to stolen condensate. As of August, Pemex had filed 1,587 police reports concerning thefts of fuel, but no cases have led to a conviction, according to Mexican daily newspaper *Reforma*.

Featured Q&A*Continued from page 3*

them. Knowing that the United States currently faces a big energy security problem, we suggested to Lula's advisors that he propose to President Obama a government-to-government oil-supply deal; for instance, 3 million barrels per day for 10 years. Brazil attempted this, but the United States doesn't have a body with which to negotiate such a deal. The oil companies operating there are too independent."

A **Georges D. Landau, head of Prisma Consultoria in São Paulo:** "The government is in a rush to get congressional approval for its pre-salt legislation, which consists of four bills that have already cleared the Chamber of Deputies and are now pending in the Senate. The opposition is in no such hurry, but Lula has requested constitutional urgency, which leaves each house only 45 days to consider the bills. Civil society has had ample opportunity to review them, but neither the government nor the Congress took much notice of the public debate on the issue. The most critical point, which was the change from a concessions regime, very successfully implemented since 1997, to one of production-sharing,

received relatively scant attention, while huge amounts of time and effort were devoted to a debate on allocation of royalties among oil and gas producing and non-producing states, the latter claiming a share of the large volumes of cash to be generated by pre-salt production. Currently, the topic receiving greatest attention is the capitalization of Petrobras, where the government proposed to make an onerous cession to the company of the cash equivalent of 5 billion barrels of oil from its unallocated reserves. However, the delay in passage of the measure has led Petrobras to consider other alternatives, without jeopardizing the company's investment grade (which caps indebtedness at 35 percent of capital). It is not certain that such alternatives can be found in the short-term. Surprisingly, the issue, which raises momentous political questions, has not yet been a hot topic in the electoral campaign, which will officially start only in July."

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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