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FEATURED Q&A

Is Importing More LNG the Solution to Argentina's Energy Woes?

Q Buenos Aires newspaper *Clarín* reported June 6 that the Venezuelan and Argentine state oil companies are speeding up plans to build a new liquefied natural gas (LNG) import terminal by 2011 as Argentina gears up for partial gas rationing during the Southern Hemisphere winter. How serious will Argentina's gas shortfall be this year? Is more LNG the answer? Is the government implementing the right energy-sector policies?

A Daniel Montamat, former secretary of energy of Argentina and associate director of Montamat & Asociados in Buenos Aires: "Natural gas accounts for a significant part of Argentina's energy matrix, so what happens in terms of natural gas is important for the whole energy sector. Natural gas has been declining in production and we have been eating up our proven reserves. Discovering new gas is possible in Argentina, but it's a process that takes 10 to 12 years, if exploration is successful. So how do we close the gap in the meantime? By making an effort to diversify the energy matrix. Importing gas from Bolivia is a problem because Bolivia is not reliable. They've made us drink some of our own poison. We cut off the Chileans, now the Bolivians can cut us off. So the other way to close the gap is by importing LNG by ship. In 2008, we imported eight ships worth, two ships each month for four

months. In 2009, despite the global recession, which affected Argentina, LNG imports rose to 11 ships worth. This year we're calculating 20 ships worth. It's no longer just a question of seasonality; the ships aren't just coming in the winter anymore. We're using the ships starting in February, which is summer in Argentina. So the issue of LNG is here to stay. Argentina is transitioning toward an energy deficit, whose size depends on the rate of economic growth and domestic gas

Continued on page 6



García, Lula Meet in Manaus, Agree to Energy Cooperation

Presidents Alan García of Peru and Luiz Inácio Lula da Silva of Brazil (L-R) met Wednesday in Manaus, Brazil, where the two governments agreed to cooperate in areas including energy. See story on page 2.

Photo: Brazilian Government.

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ENERGY SECTOR BRIEFS

Brazil Joint Venture Seeks License for Ethanol Pipeline

A joint venture including **Cosan** and 84 other Brazilian ethanol producers is seeking an environmental license to construct a \$1.7 billion pipeline to transport ethanol to a port in São Paulo state, Bloomberg News reported Tuesday. The **Uniduto Logística** joint venture plans to build the 373-mile pipeline to transport the fuel from Serrana in northern São Paulo state to Guarujá, said Uniduto CEO Sergio van Klavaren. He said Uniduto expects to begin building the pipeline next year and to start operations by 2013.

U.S. Firm to Sell 75 MW from Wind Farm to Puerto Rican Utility

San Francisco-based **Pattern Energy Group** on Tuesday announced a 20-year power purchase and operating agreement with the **Puerto Rico Electric Power Authority** (PREPA) for the sale of 75 megawatts produced at the Pattern Santa Isabel Wind Project. The project is expected to begin producing electricity in late 2011. Once operational, it will be the largest wind energy project in Puerto Rico, according to a company press release. No financial details were disclosed.

Pampa Energia's New Plant Could Boost Profits by 50 Percent

Argentine power producer **Pampa Energia** expects a new power plant in the southern Neuquen province to boost its profits by as much as 50 percent, the firm's president told Bloomberg News Monday. Marcelo Mindlin said the 180-megawatt Pampa Energia currently operates two hydroelectric plants and three-gas powered facilities, producing about 8 percent of the Argentina's power. [Editor's note: See related Q&A on page 1.]

Power Sector News

Brazilian, Peruvian Officials Sign Energy Cooperation Accords

Officials from Brazil and Peru signed several agreements Wednesday, including ones for energy cooperation, during a meeting between the two countries' presidents in the Brazilian city of Manaus. The main energy accord is an agreement for the supply of electricity to Peru, said Brazilian presidential spokesman Marcelo Baumbach, EFE reported. The two countries also agreed to lay the groundwork for Brazilian companies to participate in Peru's energy sector. The agreements are part of "the process of electricity interconnection between Brazil and Peru, which aims to strengthen the energy security of both countries," said Baumbach. "The accord will establish general rules for Brazil's participation in hydroelectric projects in Peru including the exportation of surplus to Brazil and also will provide for the necessary action to guarantee the environmental sustainability" of projects, he added. Officials from the two governments also signed agreements on health, finance and education during the meeting, Agencia Andina reported.

Oil & Gas News

Brazilian Regulator: Review of BP-Devon Deal Unrelated to Oil Spill

A review by Brazil's energy regulator of BP's \$7 billion deal with **Devon Energy** is unrelated to the British oil giant's massive spill in the Gulf of Mexico, the regulator said Wednesday, Reuters reported. "They have nothing to do with each other," according to a spokesman at Brazil's National Petroleum Agency, or ANP. "We're asking the same things of BP that we ask of everyone else." In March, BP said it would purchase interests in 10 exploration blocks in the South American country as well as others in Azerbaijan and the Gulf of Mexico in an effort to replace reserves. Two ANP officials traveled to the United States to observe the British company's emergency procedures

in the wake of the April 20 explosion of the Deepwater Horizon rig in the gulf, but the observation was not related to the deal with Devon, the spokesman added. Also on Wednesday, Mexico's government requested \$20 million from BP for the first phase of a program designed to fight effects of the spill, Environment and



Quesada

File Photo: European Union.

Natural Resources Secretary Juan Rafael Elvira Quesada told EFE. The funds would pay for training of personnel and equipment as well as water sampling, the ministry said. "Mexico will not sit idly by, with arms crossed, waiting to see whether or not the oil arrives," said Quesada.

Venezuela, ExxonMobil Both Claim Victories in Ongoing Dispute

Venezuela's government said June 10 a new tribunal ruling could help it avoid having to pay billions of dollars related to a dispute brought by **ExxonMobil** and other companies over higher royalties and taxes imposed in 2006, official state news agency ABN reported. The case, which is being heard by a tribunal at the International Center for the Settlement of Investment Disputes in Washington, involves a \$30 billion suit from **ConocoPhillips** and a \$10 billion suit from ExxonMobil. "Exxon Mobil's lawsuit, as well as other lawsuits that companies such as Conoco Phillips maintain against the republic, lost the main argument for their claims" in last week's tribunal ruling, said Energy Minister Rafael Ramírez. "With this new sentence, those figures would not have any ground, because the economic aspirations of the transnationals are based on calculations about alleged affectations since 2004," Ramírez said. For its part, ExxonMobil

said it was pleased that the case is continuing at ICSID. "We are encouraged by the jurisdictional decision of the International Center for Settlement of Investment Disputes," said Patrick McGinn, an ExxonMobil spokesman,

“ [Exxon Mobil] lost the main argument for their claims.”

— *Rafael Ramírez*

according to the Associated Press. "This is the proper forum to hear the merits of our case." He added that the company is still open to holding talks with Venezuela about the case. "While we continue arbitration proceedings to recover compensation for the Venezuelan government's actions, we remain willing to engage in substantive discussions directly with the Venezuelan government on the issues," McGinn said.

Argentina's Metrogas Files for Bankruptcy Due to Gas Price Freeze

Argentina's largest distributor of natural gas said Thursday that it is filing for bankruptcy protection because of persistent debt problems and the government's freeze on rates charged to customers, Dow Jones reported. **Metrogas** said it has "an urgent need" for the government to hike rates for natural gas. Gas and electricity rates have been virtually frozen since Argentina's 2001-2002 financial crisis. Metrogas said its operating costs have more than tripled in the past 11 years during which time rates have not changed. Despite its bankruptcy filing, which Metrogas likened to a Chapter 11 filing in the United States, the company pledged to continue distributing gas "in a safe, efficient and reliable manner." [Editor's note: See Q&A on page 1.]

Political News

Cuba, Vatican Officials Express Optimism in Talks

Top diplomats from Cuba and the Vatican

Research Alert

BP: Latin America's Proven Oil Reserves Declined Slightly in 2009

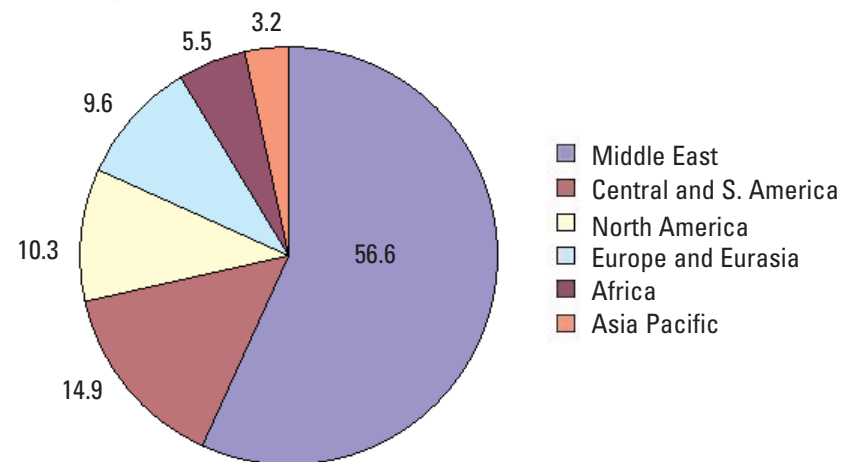
Latin America's proven oil reserves totaled 210.6 billion barrels at the end of 2009, a slight decrease from the previous year, according to the annual **BP Statistical Review of World Energy** released June 9. The drop from 210.8 billion barrels at the end of 2008 was due to a lower estimate of reserves in Mexico, the report said.

Venezuela has the region's largest proven oil reserves with 172 billion barrels, followed by Brazil with 12.9 billion, Mexico with 11.7 billion and Ecuador with 6.5 billion. Argentina, Colombia, Peru and Trinidad and Tobago all have less than 3 billion barrels each in proven reserves.

Proven natural gas reserves in Latin America rose 9.2 percent to 8.54 trillion cubic meters due largely to growth in Venezuela. Meanwhile, total world oil reserves increased 0.05 percent to 1.333 trillion barrels, of which Latin America holds 15.8 percent. World oil production dropped 2.6 percent in 2009 to 79.9 million barrels per day, impacted by a 6.2 percent decline in daily production in Mexico.

Distribution of Proven World Oil Reserves in 2009

Percentage of Total



Source: BP Statistical Review of World Energy.

"Continued growth in the former Soviet Union and Brazil was offset by continued declines in mature provinces, including Mexico—once again with the largest non-OPEC decline—the North Sea and Canada," BP Chief Economist Christof Rühl said during a speech to mark the report's release.

He noted that global primary energy consumption declined 1.1 percent, the first drop BP recorded since 1982, as the world's most developed economies consumed 5 percent less energy due to economic contraction. Latin America also saw a decline in primary energy consumption, which dropped 1.3 percent, in contrast to expansion in the Middle East and Asia-Pacific regions.

City expressed optimism on the progress of bilateral talks in Havana and on the possibility for more such encounters in the future. The talks with the Catholic Church have been "fluid, profound and

constructive," said Cuban Foreign Minister Bruno Rodríguez, EFE reported. "All the conditions" are present for "these fruitful exchanges" to continue, he added. The Vatican's top diplomat, Archbishop

Dominique Mamberti, said he hoped the talks would "strengthen" dialogue between Cuba and church officials on the island. Mamberti's trip to Cuba was officially to mark 75 years of bilateral links between Havana and the Vatican. Mamberti, who arrived in the Cuban capital Tuesday, was also expected to attend discussions on Cuba's economic woes and efforts to improve links between Cubans and exiles in other countries including the United States, the Associated Press reported. The month-long round of talks between officials of the Catholic Church and Cuba's government has led to the release of ailing political prisoner Ariel Sigler on June 12 and the transfer of 12 other political prisoners to jails closer to their homes, which began June 1. At their joint news conference Wednesday, neither Rodríguez nor Mamberti spoke of the possibility of Cuba releasing any more of its 180 political prisoners and Mamberti said he was not planning to meet with any dissidents, though he did not rule out the possibility.

Owner of Opposition Television Station Flees Venezuela

Guillermo Zuloaga, the majority owner of Venezuela's only opposition television station still on the air, has fled the country as authorities seek to arrest him, the Associated Press reported, citing two of his associates. An arrest warrant was issued Friday for Zuloaga, who is accused of usury and illegally keeping 24 new vehicles stored on his property. Zuloaga has said the case against him is politically motivated and that prosecutors are acting on behalf of President Hugo Chávez, who has repeatedly clashed with Globovisión. Zuloaga



File Photo: Globovisión.

Chávez has accused the station of conspiring against his government. He has denied ordering prosecutors to pursue Zuloaga. Authorities also have a warrant for the arrest of Zuloaga's son, also named Guillermo. Globovisión has been the only anti-Chávez television station

Advisor Q&A

Where Do the U.S. and Cuba Stand Ahead of Today's Talks? Excerpted from the June 16 *issue* of the Dialogue's daily Advisor

Q Officials from the U.S. and Cuban governments are meeting June 18 in Washington for migration talks, although previous such meetings have often included discussions on more controversial topics, including the fate of a U.S. contractor who remains imprisoned in Cuba on allegations of spying. How would you characterize the state of U.S.-Cuba relations today, more than a year after President Barack Obama moved to loosen some travel and other restrictions? How have recent high-profile human rights cases affected the relationship? What are the prospects for a bill in the U.S. Congress that would repeal the Cuba travel ban?

A Mel Martinez, former Republican senator from Florida and partner at DLA Piper: "I would say the state of U.S.-Cuban relations today is largely unchanged. I think the administration's approach in increasing family travel was good, and the invitation to rejoin the migration talks probably was a good thing to do, although I'm not surprised by the lack of progress that they've been able to make because the Cuban dictatorship has fundamentally not changed, even though it's in the hands of Raúl as opposed to Fidel. What's going on with the Vatican, I think that's more encouraging than anything that's happened

with our government. The high profile human-rights cases have been really important, because they've highlighted the continued cruelty of the Cuban government, while at the same time allowing people to see a human face. That has created probably enough of an embarrassment to a regime that is beyond embarrassment to where they maybe have begun to rethink a bit. The human rights cases have also made it less likely that there will be votes for lifting the travel ban and other restrictions. It hardens the views of some of us who are fairly skeptical about unilateral actions, but it also creates a very difficult vote for people who would otherwise believe that's the right approach, unilaterally ending the embargo or the travel ban. When you count the votes, there are probably fewer votes today than there were two or three years ago for the lifting of the travel ban. We tend to focus an awful lot on change here and unfortunately we do not focus enough on the lack of change there."

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

Editor's note: This above is an excerpt of an Advisor interview with Martinez. A partial transcript is available [here](#).]

operating in Venezuela since January, when the government forced RCTV off cable and satellite TV.

Economic News

Brazil Postponing Trade Retaliation Over U.S. Cotton Subsidies

Brazil's government will postpone trade retaliation against the United States over

subsidies to U.S. cotton farmers after the two countries reached an agreement that includes reducing the subsidies, Brazil's Foreign Trade Chamber said Thursday, Bloomberg News reported. In August, the World Trade Organization ruled that Brazil can impose as much as \$829 million in sanctions on U.S. imports and intellectual property rights because subsidies to U.S. cotton farmers violate global trade rules. However, the United States has agreed to a "substantial" reduction in

subsidies and also to creating a \$147.3 million annual fund to help Brazilian cotton producers, said the Brazilian trade chamber, known as CAMEX. Thursday's agreement gives the United States until 2012 to put into effect a new farm bill that caps subsidies to cotton producers. "This is not a final solution, but it lays out elements that will allow for consultations and reforms to the farm bill that will take place by the end of 2012," Brazil's ambassador to the WTO, Roberto Azevedo, told reporters in Brasília, Bloomberg News reported. Brazil still may impose sanctions if negotiations with U.S. officials stall, Azevedo said. The U.S. Trade Representative's office expressed optimism on the negotiations. "We are pleased with this decision, and look forward to signing the framework soon," Nefeterius McPherson, spokeswoman at the office, told Bloomberg News. "We hope to build upon this positive development to forge a stronger bilateral trading relationship with Brazil."

Colombia Will See 3 Percent Growth This Year: Finance Minister

Colombia's economy will grow 3 percent this year, Finance Minister Oscar Iván Zuluaga said Tuesday, increasing his previous estimate of 2.5 percent, Bloomberg News reported. Zuluaga also lowered his forecast for the central government's budget deficit this year to 4.4 percent of gross domestic product, from 4.5 percent of GDP. Higher revenues from oil and faster growth has increased tax revenues in Colombia. In addition, record-low interest rates have stimulated consumer spending and bank lending in Colombia, South America's fourth-largest economy. Zuluaga also lowered the forecast for the government's consolidated budget deficit a tenth of a percentage point to 3.6 percent. The figure takes into account state-owned companies' profits and losses as well as local government deficits and surpluses. For next year, the economy will grow 4 percent and the central government deficit will be 3.9 percent of GDP, while the consolidated budget deficit will be 3 percent, added Zuluaga. Next year, the government also will sell \$2.6 billion in foreign bonds. Colombia has seen a

slower economic recovery, partially because of a spat with Venezuela, which sharply cut imports from Colombia. The International Monetary Fund has estimated Colombia's economy will expand 2.25 percent this year, the second-slowest expected growth after Venezuela's.

Mexico Announces New Bank Rules Designed to Fight Money Laundering

Mexico's government on Tuesday announced new banking regulations aimed at fighting money laundering, the *Financial Times* reported. Officials in the United States and Mexico have long known that billions of dollars in illegal drug proceeds flow back into Mexico every year. According to some estimates, approximately \$10 billion illegally enters Mexico every year. U.S. officials have said the figure could be as high as \$29 billion annually. "In recent years, banking institutions have received large quantities of dollars in cash whose origin is hard to establish," Mexican Finance Secretary Ernesto Cordero told reporters Tuesday. Under the new regulations, which become

“In recent years, banking institutions have received large quantities of dollars in cash whose origin is hard to establish.”

— Ernesto Cordero

effective in 90 days, individuals will be limited to exchanging as much as \$4,000 in cash monthly at banks where they hold an account. Individuals without accounts and foreigners will be able to change as much as \$1,500 per month. Businesses will be able to exchange \$7,000 monthly under the new regulations, which also apply to dollar deposits in Mexican bank accounts and paying bills with dollars at Mexican banks. The rules would "reinforce measures to combat money laundering, including the detection, identification and monitoring of clients and non-clients of banks," Cordero added.

POLITICAL & ECONOMIC BRIEFS

At Least 16 Miners Killed in Colombia Coal Mine Explosion

At least 16 miners were killed and up to 50 remain missing after an explosion ripped through a coal mine in Colombia Wednesday, the Associated Press reported. The blast, which began in an access tunnel and is believed to have been fed by a buildup of methane gas, occurred in the San Fernando mine, south of Medellín in Antioquia state. Authorities suspended rescue efforts late Thursday due to the presence of dangerous methane and carbon monoxide gases.

Mexican Authorities Arrest Two After Ambush on Police Convoy

Mexican authorities on Thursday announced the detention of two suspects tied to an ambush earlier this week that left 12 federal police officers dead, the Associated Press reported. Alain Escutia, 20, and Emilio Palacios, 22, are said to belong to the cartel known as La Familia, which allegedly carried out the raid as retaliation for recent arrests of its members. The attack on a police convoy in the Pacific coast town of Zitacuaro Monday was one of the worst recorded attacks on Mexican security forces.

Colombian Soldiers Free Three Captives Long-Held by FARC

Colombian armed forces on Sunday freed three long-held hostages from guerrillas, the defense ministry said. Police officers Gen. Luis Mendieta and Lt. Col. Enrique Murillo and soldier Sgt. Arley Delgado, who had been held for more than a decade by the Revolutionary Armed Forces of Colombia (FARC), were rescued in the operation, which took six months to plan and involved 300 men, according to Defense Minister Gabriel Silva.

Featured Q&A*Continued from page 1*

prices. If prices move closer to international rates, demand will drop, above all in the residential sector. Rationing will be very complicated if it is cold this year. Last year, there were cuts of about 6 million cubic meters per day over demand of 120 million cubic meters on peak

gas reserves and production in Argentina have been on a downward trend for several years as politically motivated policies have simultaneously deterred investment and drove consumption to all time highs. Earlier measures the government implemented to deal with these trends—

“Rationing will be very complicated if it is cold this year.”

— Daniel Montamat

days. This year, we're expecting cuts twice as large, around 11-12 million cubic meters per day, over a maximum demand of 126 cubic meters, and the pipelines aren't even full. There's no longer a seasonal problem of a lack of pipeline capacity. The problem is a shortage of gas."

A **Jeremy Martin, director of the energy program at the Institute of the Americas in La Jolla, Calif.:** "That Argentina, a nation with abundant domestic natural gas resources, is again preparing for winter with imported LNG as its Energy Plan B speaks volumes. And it is volumes of pricey LNG cargoes that the nation may need to import if Mother Nature proves unkind this year. Only time will tell the winter's severity and corresponding spike in energy demand and gas shortfall the country may face. But early rationing is not a positive harbinger for a nation that for years embraced the development of domestic gas for its economy; the country's primary energy is now more than 50 percent gas-based. The current predicament is not new. Natural

cuts in exports to Chile, renewed imports and negotiations with Bolivia and fuel oil shipments from Venezuela—have been augmented by two others: development of a seasonal LNG facility in Bahía Blanca and rationing for industrial users. These measures are but short-term solutions with dire implications for an already tenuous economy. To wit, Argentina spends roughly \$8 billion annually on energy subsidies. Analysts argue such money would be better spent elsewhere and is part of the price tag for the government's lack of long-term energy vision. In sum, an energy policy in Argentina that relies on mild winters and LNG seems not policy but political and economic folly."

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

Editor's note: Argentina's ministry of planning, which oversees the energy secretariat, was invited to comment but did not submit a response by our deadline.

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