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FEATURED Q&A

Are Expectations for Colombia's Oil Sector Too Optimistic?

Q Earlier this year, Mexican tycoon Carlos Slim said he was actively looking to boost investment in Colombia due to its burgeoning oil industry. Meanwhile, the United States Export-Import Bank approved nearly \$1 billion in financing for Colombia's state-run energy company Ecopetrol, identifying the country as one of nine emerging economies that offer the United States a greater opportunity for export sales. Are expectations about Colombia's oil and gas industry justified or overly optimistic? What opportunities does the country offer that make it a desirable place to invest in the energy industry? How can the government boost investment to that sector? How does it compare to other oil-rich Latin American countries such as Brazil?

A Rodrigo Villamizar, former Colombian minister of mines and energy: "When it comes to Colombia's energy future, the recurrent question is how is it that a country with so much potential can look like a shack in a rich neighborhood? Indeed, resources are abundant, but the combination of difficult geology, security issues and other uncertainties has been a deterrent. The expectations of the country's oil industry remain overly optimistic but (until February) the major oil companies were not ready to risk the amounts of money really needed to tap costly and elusive oil. But investors may return after a few disappointments. Under a new global sce-

nario of events that started in Tunisia in mid-December, the specter of supply shortages is once again to the fore. Recent demonstrations in Libya have added several dollars to the West Texas Intermediate price and the contagion effect no doubt will make it climb back up to 2008 levels, reflecting a known fact: oil prices better reflect political developments than market fundamentals. This is good news for countries with still untapped oil and gas resources. With 63 percent of the world's oil reserves and 48 percent of its global gas

Continued on page 2



Santos, Obama to Announce Plan Today Paving Way for FTA

Colombian President Juan Manuel Santos, pictured Wednesday in New York, is expected today to announce with U.S. President Barack Obama a plan on labor rights in a major step toward ratification of the countries' free-trade agreement. See story on page 2.

Photo: Colombian Government.

Inside This Issue

FEATURED Q&A: Are Expectations for Colombia's Oil Sector Too Optimistic?.....1	Préal Criticizes U.N. Security Council Over Haiti Operations.....3
Santos, Obama Expected to Announce Plan Paving Way for FTA.....2	BP May Soon Win Approval for Purchase of Devon's Brazil Assets.....3
Mexican Authorities Find 59 Bodies in Mass Graves.....2	The Dialogue Continues: How Successful Was Obama's Trip to Latin America?.....3

NEWS BRIEFS

Mexican Authorities Find 59 Bodies in Mass Graves

Mexican state and federal authorities on Wednesday found a series of mass graves with a total of 59 bodies just south of the U.S. border in Tamaulipas state, the Associated Press reported. Officials went to investigate a series of reports since March 25 that gunmen have been pulling some passengers off buses in the area, in what may be attempts at forced gang recruitment. Investigators are trying to determine if the bodies belong to the kidnapped passengers or rival drug gang members.

Nicaraguan Electoral Officials Accept Ortega's Candidacy

The Supreme Electoral Council of Nicaragua on Tuesday accepted President Daniel Ortega's bid to run in the country's Nov. 5 election, the Associated Press reported. Ortega formally registered to run on March 18 but opposition political parties and several other groups argue his candidacy should be invalidated. The Nicaraguan Supreme Court in 2009 overturned the constitutional ban on consecutive re-election.

Walmex Reports Decline in Same-Store Sales for March

Wal-Mart de Mexico on Wednesday reported a decline in its same-store sales for March, Dow Jones reported. The retailer, known as Walmex, said same-store sales last month in Mexico fell 1.1 percent as compared to the same month a year earlier, while same-store sales in Central America declined 1.8 percent year-on-year. Walmex's total sales, including at stores opened within the past year, rose 4.6 percent in March to 28.19 billion pesos (\$2.39 billion).

Economic News**Santos, Obama Expected to Announce Plan Paving Way for FTA**

Colombian President Juan Manuel Santos will be at the White House today where he and U.S. President Barack Obama are expected to announce a plan to protect labor rights in Colombia, which has been the main obstacle to finalizing a free-trade agreement between the countries, Agence France-Presse reported. "We are now in a position to announce an agreement on an 'Action Plan Related to Labor Rights' that outlines a number of steps that Colombia has agreed it will undertake," U.S. Trade Representative Ron Kirk told reporters Wednesday in a conference call. The plan will pave the way for ratification of the trade accord later this year, Kirk added. On Wednesday in New York, where he was presiding over a meeting of the U.N. Security Council, Santos said the agreement was imminent. "We are very

close to a definitive agreement," Santos told reporters. "If we do so tomorrow we will then have a concrete date for the presentation of the FTA to Congress, which was our goal." The United States and Colombia signed the agreement in 2006,

“Colombia has been waiting five years.”

— Juan Manuel Santos

but the accord has been stalled in the U.S. Congress. Santos added that "Colombia has been waiting five years" for the pact to be ratified and added that there would "in no way" be new negotiations. The plan to improve labor protections includes a requirement that Colombia by June 15 criminalize actions that infringe upon labor rights. The plan "significantly expands the protection for labor leaders and union organizers, it bolsters efforts to

Featured Q&A

Continued from page 1

reserves, the Middle East plus North Africa will be 'too high risk' investment opportunities for a few years. For new investment to head for Colombia and the Latin American region, two factors need to be present: better infrastructure and more friendly (and secure) contractual terms. Unlike Brazil's example of investing in infrastructure first, or India's own large energy investment to accelerate economic development, or China's huge power investment to respond to the rapid increase in production, Colombia lags behind in both."

A Roger Tissot, independent energy economist: "One should not be surprised that Mr. Slim is looking to invest in Colombia's oil sector. As a shrewd businessman, he knows where good opportunities are and Colombia has been a rewarding place for oil companies. Since 2007, production has increased by 47

percent despite a lack of eye popping discoveries such as those that occurred 20 years ago, which led to a short-lived oil boom (Caño Limón to be followed by Cusiana-Cupiagua) or by the pre-salt discoveries of Brazil. However, the question is why did it take Mr. Slim this long before investing in Colombia's oil sector? While the Brazilian government reduced international oil companies' access to the pre-salt reserves and increased the control of the government, in Colombia, fierce market competition has increased the 'cost of entry.' As cost increases, IOCs may start looking into other areas, including 'post-salt' Brazil. However, the 'oil boom' in Brazil is clearly one where Petrobras will play a central role. Central to Colombia's oil boom is the development of its heavy crude oil reserves in the Llanos basin. Here, Ecopetrol would be wise not only to master the technologies required to produce heavy crude, but similarly to Petrobras and its strategic

Continued on page 4

hold accountable and punish those who have perpetrated violence against union members and makes a number of important steps to strengthen labor laws and their enforcement," said Kirk.

Political News

Préval Criticizes U.N. Security Council Over Haiti Operations

Outgoing Haitian President René Préval on Wednesday criticized the U.N. Security Council, saying it has been too slow in converting its peacekeeping mission in the impoverished Caribbean country from military operations to peacebuilding and development, the Associated Press reported.



Préval

File Photo: United Nations.

The Security Council meeting at U.N. headquarters was Préval's last as Haiti's president and he used it to urge the body to consider the effectiveness of its activities "that have practically led to 11 years of military presence in a country that has no war."

Company News

BP May Soon Win Approval for Purchase of Devon's Brazil Assets

British oil major BP could win approval as soon as this month for its purchase of the Brazilian assets of Devon Energy, a top lawyer at Brazil's oil regulator told Bloomberg News in an interview published Wednesday. Eight of the 10 oil blocks BP wants to buy from Devon are located off Brazil's coastline and the London-based company meets the "technical" requirements to operate there, Tiago Macedo, general council for the National Hydrocarbons Agency told the news service. "The approval of BP, relating to Devon, is technically authorized—the only thing missing is the formal approval of this transfer," said Macedo.

"There should be no impediment to BP giving continuity to these contracts." The regulator, known as ANP, has asked BP for additional information following its massive oil spill last year in the Gulf of Mexico and has also reviewed the company's operational and financial capabilities. Oklahoma City-based Devon has oil

blocks in water as deep as 8,150 feet in Brazil's Campos Basin. Devon's Polvo field, which is in shallow waters in the Campos Basin, produced 12,265 barrels daily in January, according to the ANP. The company found the Itaipu prospect in the basin in 2009 and also discovered oil last year at the nearby BM-C-34 block.

The Dialogue Continues

How Successful Was Obama's Trip to Latin America?

Q U.S. President Barack Obama visited Brazil, Chile and El Salvador on a five-day tour of the region last month, signing a variety of agreements on security, energy, education and trade. Which aspects of the trip were a success and which were disappointments? What could Obama have done better? How did Obama's agenda and speeches during the trip reflect changing political and economic dynamics in the region and what do they indicate for future U.S.-Latin American relations?

A Abraham F. Lowenthal, member of the Inter-American Dialogue and professor of international relations at the University of Southern California:

"President Obama's trip well illustrated both the promise for improving U.S.-Latin American relations and the constraints on rapid progress toward the full partnership he offered. Proceeding with the visit despite the unfolding developments in North Africa and the Middle East as well as the looming budget impasse at home showed that the Obama administration recognizes Latin America's growing importance for the United States. By implicit signals and explicit statements, Mr. Obama suggested that his administration understands Latin America's relevance, no longer as an arena of conflict with extrahemispheric rivals but because of the significance its diverse countries have: as actual and potential export markets; in affecting trans-national issues from climate change to energy security and pandemics to organized crime; the growing

demographic and economic interdependence between the United States and its closest neighbors; and shared core values, including human rights and democratic governance. The countries Mr. Obama chose to visit, and the things he said and did on each stop, underlined this new paradigm for inter-American relations. And the president's repeated references to partnership, his explicit acceptance of U.S. co-responsibility for the traffic in narcotics and small arms and his general demeanor and rhetoric reinforced the message that the United States is ready to cooperate bilaterally and multilaterally on a range of important issues. By the same token, however, the president could not deliver concrete progress on trade issues with Brazil and on the pending free-trade agreements with Colombia and Panama. He could only reiterate his thus far unredeemed pledge to achieve comprehensive immigration reform. And his commendable budget proposals on programs to reduce narcotic demands and to improve citizen security in Central America are not yet cashable checks, nor would they provide truly adequate resources even if approved. The glass of improved U.S. policies toward Latin America and the Caribbean is half full but half empty. What happens next depends partly on the administration's follow-up but also whether or how diverse Latin American countries respond to the call for working partnerships."

Editor's note: The above is a continuation of a Q&A published in the March 30 issue of the Advisor.

Featured Q&A*Continued from page 2*

advantage as a deep water operator, Ecopetrol could develop a strategic advantage as the region's leading heavy crude oil producer. In addition to Colombia, Ecopetrol could use that strategic advantage to produce oil in partnership with IOCs' and host countries' national oil companies where there are strong cultural affinities and vast heavy crude oil reserves: Peru, Ecuador and, of course, Venezuela. The U.S. Ex-Im Bank financing to Ecopetrol confirms the company's economic potential. What is disappointing, however, is the lack of urgency from the U.S. administration to sign a FTA with Colombia. In that area, Colombia must increase its efforts to diversify its markets, including oil exports. Ecopetrol, in partnership with Chinese and other oil companies, should develop the pipeline transporting oil from the Llanos (and in the future from Orinoco's Venezuela) to the Pacific coast for exports to China."

A Hernan Arizmendi-Posada, CEO of LAGO Energy in The Woodlands, Tex.: "For several international investor companies in the oil and gas industry, it's not a matter of whether Colombia's expectations are justified or overly optimistic, as many of them think that this country, with its aggressive pro-business stance, is no longer an untapped potential waiting to be discovered. They have already decided to take action and participate in a broad gamma of investment opportuni-

ties in Colombia. According to Colombia's National Hydrocarbons Agency, oil production grew 13 percent year-on-year in January. With approximately 2 billion barrels of proven reserves and potential reserves of approximately 47 billion barrels of oil equivalent, Colombia, according to Ecopetrol, has not yet explored a vast part of the nation's territory but is ready to unlock new discoveries. If you don't jump in now like Mr. Slim and others (and enjoy the party), it may be too late later on to take advantage of these attractive opportunities. Although Brazil is a superpower, you have to search worldwide to find the best combination of 'an all in one' country like Colombia: today one of the most attractive markets, and now on the world petroleum map where billions of dollars of foreign capital flow into the country, thanks to an improved and stable democracy, good economic conditions, security, a welcoming place for private investment, accompanied by an attractive legal framework for foreigners, clear rules, and a positive business environment, plus a strategic geographic location with good infrastructure and plenty of professional human talent. Colombia is a friendly and competitive country where doing business is not only easy, smart and productive but a pleasure. The big risk is not being there in a timely fashion."

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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