INTER-AMERICAN DIALOGUE'S
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FEATURED Q&A

How Will Brazil's Pre-Salt Regulatory Debate Turn Out?

Q The Brazilian government last month released a long-anticipated plan for sharing oil royalties among states. However, congressional leaders have continued to struggle to broker a compromise with producer and nonproducer state governments, which are each threatening to challenge proposals they deem insufficient in court. The deal is a requirement to implement the government's new framework for exploration and production of the country's massive subsalt reserves. What are the main obstacles to reaching a deal? How likely is the government to reach an agreement before the end of the year? When is Brazil likely to be able to conduct a new bidding round for the pre-salt area?

A Kirk Sherr, member of the *Energy Advisor* board and president and managing director of Regester Larkin Energy North America in Washington: "It is hardly surprising that the amendment to distribute pre-salt royalties is still deadlocked in the Brazilian legislature. The law which shifted the Brazilian oil regime to a production-sharing system included the 'Ibsen Amendment' which sought an egalitarian split in government revenue from subsalt royalties. Vetoed by President Lula in 2010 on the insistence of governors from oil-producing states, the divisive legislation has yet to find a form that appeases both producing and nonproducing states. The Brazilian government made concessions to the nonproducer states last week, but there is still concern that the legislation could end up before the Supreme Court no matter which direction the legislature takes. There are two potential scenarios for passing the amendment, each with a different timeline. (1) The government's plan passes through the Senate and there is no vote on Lula's veto; royalties are more equitable but still slightly favor producing states; legislation is finalized before the end of October and

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Colombian Oil Output Should Recover in October from Strike

Colombian Energy Minister Mauricio Cárdenas said Wednesday he expected oil production to recover to 950,000 barrels per day in October after demonstrations hit output last month. See story on page 2.

File Photo: Colombian Government.

Inside This Issue

ENERGY SECTOR BRIEFS

Venezuelans Seeing Nationwide Shortages of Gas, Diesel: Report

Oil-rich Venezuela has experienced shortages of fuel supplies such as gasoline and diesel at the consumer level over the past week, industry newsletter *Platts* reported Wednesday. In Caracas, lines of automobiles at service stations have been forming since Sept. 29 as motorists stock up on gasoline, while some other stations have been closed for lack of supply, according to the report. State oil company **PDVSA** has not yet explained the fuel shortages, which are reported to be nationwide, and did not immediately return phone calls or emails by *Platts*.

Ecuador Signs $45 Million Agreement with Chiles ENAP

Ecuador's government on Monday signed a $45 million service contract with Chilean state oil company **ENAP** to explore for hydrocarbons on an offshore and onshore block, Reuters reported. The agreement lets ENAP explore Jambeli Block 3, located in the south of Ecuador, near its maritime border with Peru. Ecuador's Minister of Non-Renewable Resources, Wilson Pastor, said ENAP would carry out seismic surveys and drill exploration wells over four years.

ExxonMobil Seeking to Sell Stake in Brazil Oil Prospect

Texas-based **ExxonMobil** is offering for sale a 25 percent stake in an offshore Brazilian oil prospect after drilling two wells that failed to strike crude, Bloomberg News reported Thursday. The prospect, known as Block BM-S-22 in the Santos Basin, may hold as much as 1.5 billion barrels of recoverable crude. Exxon owns 40 percent of the prospect and is the operator of the project.

Oil & Gas News

BP Deal to Sell Argentina's Pan American Energy at Risk of Collapse

A $7.1 billion deal in which British oil major **BP** would sell its 60 percent stake in Argentina's **Pan American Energy** to a company partially owned by Chinese oil company **Cnooc** is at risk of collapse, Bloomberg News reported Sunday, citing a person familiar with the situation. BP had agreed last November to sell its stake to the subsidiary, **Bridas Corp**., which Cnooc and Argentina's Bulgheroni family jointly own. The deal has encountered political opposition and may not be finished when the accord for the deal expires next month, the person told the news service, adding that BP is prepared for the possibility of the deal lapsing. In that case, the London-based company would continue as a partner in the venture. The deal could still be completed, the source added. "Deals of this scale take time to finalize with competition authorities," BP spokesman Robert Wine told the news service. "We can confirm the deal has not yet closed as Argentine competition approvals remain outstanding, but we remain optimistic that these approvals will be granted in due course."


Wine

File Photo: BP.

Colombian Oil Output Should Recover in October: Energy Minister

Colombian Energy Minister Mauricio Cárdenas said Wednesday he expected oil production to recover to 950,000 barrels per day in October after demonstrations hit output last month, Reuters reported. Crude output fell 6.4 percent to 891,000 barrels per day in September versus August after protesters demanding more local jobs and social equity crimped output at fields run by Canada's **Pacific Rubiales** and **Petrominerales**. "I think that in October we're going to reach 950,000 barrels per day on average so that we're at 1 million barrels per day in December," Cárdenas told reporters at the Rubiales field. Colombia's oil output had stagnated a decade ago, but a major investment push by the government, coupled with success combating rebel groups that had frequently targeted pipelines, has been a boon to the sector. However, recent scandals have posed a problem for the government. Last month, Colombia named Cárdenas, a respected economist, as its new energy minister amid a shakeup in the government's energy policy leadership. Longtime National Hydrocarbons Agency head Armando Zamora had resigned amid allegations that oil royalties had been misused and scholarships had been unfairly given to relatives of top officials. Zamora has denied wrongdoing, and suggested social protests, like the Rubiales episode in September, posed a bigger threat to the sector than corruption. [Editor's note: See related Q&A in the Sept. 26-30 issue of the *Energy Advisor*.]

Anadarko Petroleum Planning to Sell Brazil Oil Blocks

U.S.-based **Anadarko Petroleum Corp**. is planning to sell all its oil blocks in Brazil, Bloomberg News reported, citing a director at Brazil's crude regulator. "Anadarko is taking the option to negotiate an exit from Brazil; it's a business option," Magda Chambriard, a director at the agency, ANP, told reporters Tuesday in Rio de Janeiro. "Anadarko did very good work in Brazil, making discoveries in exploration areas." The company, based in The Woodlands, Tex., has approximately 1 million gross acres off the South American country's coastline and has made four discoveries. Its Wahoo and Itaipú discoveries have a combined potential of at least half a billion barrels of oil equivalent, according to the oil and natural gas company. Anadarko previ-

> "Anadarko is taking the option to negotiate an exit from Brazil; it's a business option."
>
> — *Magda Chambriard*

ously sold a stake in the Peregrino field off Brazil's coast to a company that is now part of Norway's **Statoil** for about $1.4 billion.

Brazil's BNDES Accepts PDVSA Guarantees for Refinery Project

Brazilian national oil company **Petrobras** said Monday that the country's state development bank, BNDES, has accepted guarantees from Venezuelan state oil company **PDVSA** that are required to advance a stalled partnership to build a major new oil refinery, Venezuelan daily *El Universal* reported. The refinery, which Petrobras is building in the state of Pernambuco in northeast Brazil, has been beset by missed deadlines and bickering. The companies have set Nov. 30 as the deadline to complete the negotiations over the project, according to the report. The Abreu e Lima refinery was initially conceived as a binational plant, but Petrobras is currently building it with its own funds. Negotiations are underway for PDVSA to purchase 40 percent of the capital stock in the Abreu e Lima refinery and to assume 40 percent of the debt. The 230,000-barrel-a-day refinery will cost an estimated $15 billion to build. If PDVSA participates, the facility should be able to process Venezuela's heavy-grade crude oil.

Power Sector News

Peru Seeks to Diversify Power Grid with Renewable Energy Projects

Peru's Ministry of Energy and Mines announced Tuesday that the country has signed nine agreements with investors for renewable energy projects in hopes of diversifying the country's power grid, state news agency Andina reported. The head of Peru's Directorate General of Electricity, Roberto Tamayo, said the nine agreements will guarantee the execution of small wind and solar energy projects as well as hydro-electric power projects in different regions, according to the report. "We believe that these new technologies will help cover some eventualities and may make up for a shortage of energy supply," said Tamayo. Most of the projects will be constructed in the northern and southern areas of Peru. The companies signing the agreements include **Parque Eólico Tres Hermanas, Moquegua FV, Empresa de Generación Eléctrica Canchayllo, Peruana de Inversiones en Energías Renovables, Empresa de Generación Eléctrica Santa Ana** and **Andes Generating Corporation**.

Regulatory Delays Holding Up New Jamaica Power Plant: Report

Jamaica Public Service Company (JPS), the main power utility in Jamaica, said that construction of its planned $330 million power plant will be delayed due to a missed deadline by the Caribbean nation's regulator, the Office of Utilities Regulation, the *Jamaica Gleaner* reported Sept. 30. The deadline for notification on whether the JPS bid met the requirements of the request for proposal was Sept. 19, but regulators have continued discussions close to five months after the tender period. The notification is a precursor to the start of negotiations. "It delays the start of the project," a JPS official told the *Gleaner*. The 480 MW power plant would represent the largest block of generating capacity ever sought by the Jamaican regulators, and would grow the grid's current 820 MW of capacity by nearly 60 percent, according to the *Gleaner*. JPS was the sole bidder for the project, which offered several proposals for building the plant. Consultants to the government are evaluating which type of project is best, and their report has been delayed for unspecified reasons. The original timetable for construction is slated for April 30, 2012 with the first stage to be completed by April 2014 and the remainder by January 2016.

Featured Q&A

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bidding begins in early 2012. (2) No agreement is reached on the government's plan due to entrenched geographic partisanship; the veto is removed in Congress, and as a result, producing states bring the matter to the Supreme Court; legislation continues to be gridlocked until mid-2012. It seems that the first scenario (slightly more equitable distribution of royalties) is on track, which would allowing for an early 2012 bid round if the final legislation is not challenged by one side or the other."

A **John Albuquerque Forman, president of J Forman Consultoria in Rio de Janeiro and former ANP director:** "With the discovery by Petrobras of the subsalt resources in Brazil, announcements were made of a huge potential for oil and gas, and the government take from future production was estimated in the range of $1 billion. Rather than adjust the level for the 'participação especial' that is charged on high-production, high-revenue fields, which could be done by a simple alteration of a government decree, the decision was made to modify the form of taxing these revenues by using the production-share formula. Whereas the distribution of royalties and special participation revenues is well detailed in the Petroleum Law (Law 9478/1997) with percentages attributed to the municipal, state and federal treasuries, the revenues from the subsalt resources would be used by the federal government to create a special fund. When the proposals for the changes were sent to Congress, at first there was the claim from nonproducing states and municipalities that because the location of these new resources was distant from the coast, they should be distributed equally among all states and municipalities and the federal share should be diminished accordingly. Then came the idea that all revenues, whether from subsalt resources or from the present concession contracts, should also be equally shared. President Lula vetoed this. It is doubtful that any congressman will vote in favor of the producing states only and 'against' the nonproducing ones, which of course do not want that to happen. It is going to be a long and difficult debate before any new distribution scheme will be approved. Until then, no bid rounds for the subsalt area and, as

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Political News

Obama Administration Submits Trade Accords to Congress

Ending a wait for supporters that spanned four years and two presidencies, the administration of U.S. President Barack Obama on Monday formally submitted free-trade agreements with Colombia, Panama and South Korea to Congress. The accords, which had been negotiated during the administration of former President George W. Bush, had been held up amid issues including aid for U.S. workers displaced by foreign competition. "We've worked hard to strengthen these agreements to get the best possible deal for American workers and businesses, and I call on Congress to pass them without delay, along with the bipartisan agreement on Trade Adjustment Assistance that will help workers whose jobs have been affected by global competition," Obama said in a statement. The trade accords, packed into 18 boxes, were driven Monday from the White House to the Capitol after House Speaker John Boehner vowed to debate them alongside the aid package for displaced workers, Bloomberg News reported. Since taking office, Obama has worked to expand Democratic support for the pacts. The administration won assurances on workers' rights from Colombia, an agreement on exchanging tax information with Panama and new terms for vehicle tariffs with South Korea. The U.S. Chamber of Commerce applauded White House's action in sending the accords to lawmakers. "America is finally getting back in the game," the chamber's president, Thomas J. Donahue, said in a statement. "These agreements are about creating jobs and ensuring a level playing field for trade. As I promised nearly a year ago, the Chamber will pull out all of the stops to get the votes in Congress, where the agreements already enjoy bipartisan support." Delays in implementing the trade agreements "have put 380,000 American jobs at risk," the chamber added. Some unions have consistently opposed the accords, however, saying they will cost jobs in the United States. "The last thing America needs is one more job-killing trade deal, let alone three." Teamsters President James P. Hoffa said in a statement. "The Teamsters will do everything we can to prevent Congress from approving these ill-conceived trade deals." Now that the accords are in the hands of Congress, lawmakers are pledging quick action. House Speaker John Boehner (R-Ohio), said voting on the accords will be a "top priority for the House," Bloomberg News reported. The legislation is covered by "fast-track" rules that intend for lawmakers to vote within 90 legislative days and limit amendments and debate. Senate Majority Leader Harry Reid (D-Nev.) said senators could act on them this month.

"The Teamsters will do everything we can to prevent Congress from approving these ill-conceived trade deals."

— James P. Hoffa

Indigenous Activists Resume Anti-Highway March

Hundreds of indigenous Bolivian protesters resumed a march Saturday in opposition to a proposal to construct a highway through a preserve in the Amazon, the Associated Press reported. The march was restarted a week after police violently cracked down on the demonstrators. The march against the highway that would be funded by Brazil and that would pass through the Isiboro-Secure Indigenous Territory National Park started on Aug. 15 and was stopped Sept. 25 when police broke up the protest using tear gas and clubs. Dozens of people were injured, and Bolivia's defense and interior ministers resigned over the crackdown. Protesters resumed the march Saturday about 125 miles from La Paz in the town of Quiquibey. "We are continuing the struggle. We have advanced and were are in the town of Delicias and bit by bit we are gaining more supporters," Fernando Vargas, a march organizer, told the AP. About 1,000 people are participating in the march, he said. Leaders of the demonstration say they hope to reach La Paz by mid-October. President Evo Morales, Bolivia's first indigenous president, was sharply criticized after last week's operation against the marchers and tens of thousands of people demonstrated in Bolivia's major cities on Wednesday to protest the crackdown. Morales denied ordering the operation and has apologized to the marchers. After the crackdown, Morales also suspended the highway project, saying voters in the area would be the ones to decide whether it will be built. Morales has said Bolivia needs the highway for economic development, but opponents of the project say it would ruin the preserve, which is home to some 15,000 indigenous people.

Economic News

Latin American Countries Must Be Ready to Protect Economies: IMF

Policymakers in Latin America must be ready to take actions, including cutting interest rates, if recessions take hold in the United States and Europe and threaten their economies, the International Monetary Fund said in a report Wednesday, Bloomberg News reported. If recessions spill over to Asian countries, Latin American commodity producers could face a "triple shock" due to weaker trade terms, a fall in exports and tightening global credit, the IMF added. "Given the complexity and uncertainties surrounding the global economy, policymakers must stand ready to adjust policies should downside risks materialize," the lender said in the 93-page report. "In countries with credible monetary frameworks, where inflation pressures have abated, monetary policy can be more flexible, serving as a first line of defense." Latin American policymakers should only use fiscal easing if a slowdown in Asia leads to "severe downside risks" of lower prices for crude oil and metals and if the European debt crises lead to a credit crunch, the IMF said. The lender predicts that growth in Latin America will slow this year to 4.5 percent and to 4 percent next year. That is compared to growth of 5 percent in this year's first half. Brazil's and Mexico's economies, the region's largest, will each experience growth of 3.8 percent this year, with those two countries and Venezuela trailing the rest of the region next year. The IMF expects Panama to experience the highest growth rate next year, at 7.2 percent. The IMF also said it expects Venezuela to suffer the highest inflation next year, 24 percent, quadruple the region's average.

Higher Electricity, Food Prices Driving Up Inflation in Colombia

Consumer prices in Colombia rose by 0.31 percent in September, a "significantly higher than expected" figure, according to a **Goldman Sachs** research note circulated Thursday. The September increase compares to a decline of 0.03 percent, month-over-month, in August. The September rate of inflation was well above the 0.02 percent market consensus forecast. Food prices and home related costs, such as rent and utilities, rose by 0.47 percent and 0.60 percent, respectively. In particular, home-related inflation was driven by a 3.3 percent increase in electricity prices, which alone added 11 basis points to headline inflation.

Home-related inflation was driven by a 3.3 percent increase in electricity prices.

POLITICAL & ECONOMIC BRIEFS

Haitian Senate Approves Conille as Prime Minister

Ending a months-long wait, Haiti's Senate on Tuesday approved Garry Conille, a physician who served as an aide to former U.S. President Bill Clinton in his role as special United Nations envoy to Haiti, as the Caribbean country's prime minister, the Associated Press reported. Conille was Haitian President Michel Martelly's third choice for prime minister after lawmakers rejected his first two selections. Haiti's government must have a prime minister in order for a cabinet to be installed, and the lack of an official in that position has impeded Martelly's earthquake reconstruction efforts, critics say.

Chile Stands by $67 Billion Copper Investment Estimate

Chile expects mining companies to maintain their investment plans even after prices recently fell by 32 percent, the most in three years, Bloomberg News reported Tuesday. Spending on new or existing mines will reach $67 billion over the next eight years, Mining Minister Hernán de Solminihac said in an interview with Bloomberg. Codelco, the state-owned copper company, will account for $20 billion of the total.

Brazil's Trade Surplus Triples in September from a Year Ago

Brazil's trade surplus nearly tripled in September from a year earlier, Reuters reported Monday. The South American nation's flow of exports beat market expectations for the month, rising despite slow economic growth in the United States and Europe. Brazil's trade surplus of $3 billion in September was up from $1.1 billion in the same month a year ago, the trade ministry said.

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a consequence, for other areas where the present concession system applies."

A **Isabella Alcañiz, post-doctoral fellow and visiting professor at The Lauder Institute at the Wharton School of the University of Pennsylvania:** "Last year, the Brazilian Congress agreed to do away with the old co-participation scheme, which benefited oil producing states, by passing a framework that divided oil revenues equally among all states. President Lula vetoed it. At present, Congress appears to be at a standstill because nonproducing states want to overturn Lula's veto while oil producing states want the status quo. President Dilma's government is pushing for new legislation that nevertheless can be accepted by producer states in order to avoid future legal nightmares. With a coalition majority in both chambers, a number of legislative prerogatives (including urgency motions), and a strong incentive to move forward swiftly, it seems likely the government will get its new plan by the end of this congressional session or the beginning of the new one in February 2012. A proposal by a Workers Party senator, already in commission, could do just that. It calls for oil revenues being split 60-40: 60 among all states and the federal government and the rest for oil producers. While negotiations will be difficult, the decision by congressional leaders to schedule a vote on this proposal, before the planned vote on Lula's veto, is good news for the government. Proponents have already signaled that it could contain short-term compensations for oil states. If passed, the bidding for presalt-area drilling by late 2012 can go ahead as scheduled."

A **Paulo Valois, partner at Schmidt, Valois, Miranda, Ferreira & Agel in Rio de Janeiro:** "The issues involving the allocation of the government take among the states have started with the enactment of the new legal regime (production sharing agreement) for the exploration of the presalt layer. Under the PSA regime, the so-called special participation will no longer exist. The royalties and special participation revenues under current and future concessions will be split among producing and nonproducing states. The producing states (such as Rio de Janeiro State) will therefore lose a substantial portion of their revenues. The states have not reached an agreement yet and if the new allocation is approved, it is likely that the issue will be resolved by the Supreme Court. It is hard to anticipate whether the states will converge until the end of the year. I don't expect a round for the pre-salt in 2012."

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

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A review of the Featured Q&As in the Energy Advisor *in September*

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

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