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## FEATURED Q&A

### Will Mexico Be Able to Exploit Its Shale Gas Resources?

**Q** Mexico is abandoning plans to build as many as 10 nuclear reactors and will focus instead on natural gas-fired electricity plants, Bloomberg News reported last month. According to Energy Minister Jordy Herrera, Mexico is shifting course in light of new discoveries of natural gas deposits. He added that Mexico would seek private sector investment for about \$10 billion during five years to expand a natural gas pipeline network. Is Mexico's plan to scrap new nuclear projects a good idea? How significant are the new natural gas deposits? Will Mexico be able to exploit them to meet growing energy needs? Should the country be looking at other energy sources?

**A** George Baker, publisher of *Mexico Energy Intelligence*: "On a visit to the state of Sonora on Nov. 9, President Felipe Calderón unveiled a vision of a 40 percent expansion in Mexico's system of natural gas transportation pipelines. Of the eight projects that were mentioned, two had already been the objects of public tenders, and one of these, the Manzanillo-Guadalajara pipeline, was already under construction. The announcement included no liberalization of the natural gas market that would increase market-driven investment opportunities, nor was there any news about plans to restructure Pemex's gas processing, pipeline and marketing subsidiary (PGPB). While the president promised that

the new projects would bring a 'cleaner' and 'cheaper' fuel to new customers, there were no signs that the government is aware of the resistance that will be put up in local markets by LPG distributors who will not look kindly on the prospect of being displaced by natural gas. (Nor will criminal elements be pleased by any reduction in the daily cash-flow of these distributors with which narco money may be laundered.) Where the government plan shows innovation and creativity is the so-called 'Northwest Pipeline,' which would extend

*Continued on page 3*



### U.S. Supreme Court to Rule on Arizona Immigration Law

The U.S. Supreme Court said Monday that it would rule on Arizona's crack-down on illegal immigrants. Gov. Jan Brewer, who signed the law last year, expressed confidence the high court would uphold it. See story on page 2.

*File Photo: State of Arizona.*

## Inside This Issue

|   |   |  |   |
|---|---|--|---|
| FEATURED Q&A: Will Mexico Be Able to Exploit Its Shale Gas Resources? ..... | 1 | Pope Planning Trip to Mexico, Cuba Early Next Year .....       | 2 |
| U.S. Supreme Court to Rule on Arizona Immigration Laws.....                 | 2 | U.S. Senate Blocks Nominee for Ambassador to El Salvador ..... | 2 |
| Most Measures to Boost Brazil's Economy Have Been Taken: Barbosa.....       | 2 | London-Based Rurelec Buying Peru Power Plants.....             | 3 |

## NEWS BRIEFS

**Pope Planning Trip to Mexico, Cuba Early Next Year**

Pope Benedict XVI announced on Monday that he would be taking a trip to Mexico and Cuba in the spring, the Associated Press reported. The pope made the announcement at a special Mass celebrating the Feast of Our Lady of Guadalupe, Mexico's patron saint. It will be the first time a pope has visited Mexico since 1979 and Cuba since 1998, and Benedict said the trip will take place before Easter. The pontiff called on Latin Americans to build "a society based on the development of good, the triumph of love and the expansion of justice."

**U.S. Senate Blocks Nominee for Ambassador to El Salvador**

The U.S. Senate on Monday blocked the White House's nominee for ambassador to El Salvador, Mari Carmen Aponte, the Associated Press reported. Senators blocked her nomination over unfounded rumors that her former boyfriend of years ago was a Cuban spy and also over a newspaper op-ed Aponte wrote earlier this year in support of gay rights. Amid Republican opposition to her nomination, President Barack Obama made Aponte a recess nominee in September 2010, but that temporary appointment is to expire at the end of this year.

**Canada's Gran Tierra Appoints Rozon Acting CFO**

Canada-based **Gran Tierra Energy**, which has assets in Colombia, Brazil, Argentina and Peru, has appointed James Rozon as acting chief financial officer after Martin Eden was placed on medical leave. Shares of the oil and gas exploration company slid last week upon news of disappointing results from drilling in Colombia.

**Political News****U.S. Supreme Court to Rule on Arizona Immigration Laws**

The U.S. Supreme Court announced Monday that it would rule on whether Arizona's crackdown on illegal immigrants interferes with federal law. The court said it would decide whether key provisions of the state's immigration law, officially known as SB 1070 or the Support Our Law Enforcement and Safe Neighborhoods Act, may stand. The law, which Gov. Jan Brewer signed in April 2010 requires police to check the immigration status of anyone who has been detained and is suspected of being in the country illegally. Other provisions of the

*Courts have blocked much of Arizona's immigration law from taking effect.*

law require immigrants to always carry their immigration papers and prohibit immigrants without proper documentation from seeking work in public areas, *The Christian Science Monitor* reported. The U.S. Justice Department has argued the Arizona statute undermines the federal government's authority to enforce immigration laws and courts have sided with that view, blocking much of the law from taking effect, *The Wall Street Journal* reported. Brewer welcomed the Supreme Court's decision to rule on the law, expressing confidence that the justices would uphold it. "Decades of federal inaction and misguided policy have created a dangerous and unacceptable situation, and states deserve clarity from the court in terms of what role they have in fighting illegal immigration," Brewer said in a statement, *The Christian Science Monitor* reported. The administration of President Barack Obama has challenged the law, arguing the federal government has the sole authority to enforce immigration laws and that federal laws preempt laws passed by the states. In May, the Supreme

Court let stand a different Arizona law that allows state officials to close down businesses that hire immigrants who are in the country illegally. A ruling could have implications for immigration laws passed by other states, including Alabama, Georgia, Indiana, South Carolina and Utah. The high court is expected to hear arguments in the case in April. A ruling would be due by July, four months before the U.S. presidential election.

**Economic News****Most Measures to Boost Brazil's Economy Have Been Taken: Barbosa**

Brazil has already taken the majority of the efforts needed to boost the country's economy, said Deputy Finance Minister Nelson Barbosa, Bloomberg News reported Monday. The government also does not see a need to depend on state-run banks to increase credit, Barbosa added. "A great deal of what we think is necessary for next year has already been done," Barbosa told the news service in an interview Friday. Brazil's economy experienced its first contraction in two-and-a-half years in the third quarter amid debt crises in Europe and the United States and higher borrowing costs in Brazil. Economic growth for this year as a result is expected to slow to 3 percent from last year's growth rate of 7.5 percent, **Banco Bradesco** has forecast.



File Photo: Brazilian Government.

In efforts to spur economic growth, the administration of President Dilma Rousseff has lowered the country's benchmark interest rate three times, cut taxes on goods ranging from refrigerators to pasta and loosened restrictions on credit. Also, the government has slashed taxes imposed on small companies and has reduced taxes on exports and payrolls. In addition, the government has approved a 14-percent boost to the minimum wage, which takes effect in January. The measures amount to a fis-

cal stimulus of 39 billion reais (\$21.7 billion), said Barbosa. Also, Rousseff's administration is planning to increase public investments from the current level of 1 percent of gross domestic product to approximately 1.2 percent of GDP, he added.

## Company News

### London-Based Rurelec Buying Peru Power Plants

British energy developer **Rurelec** is planning \$200 million worth of power plant acquisitions in Peru, Bloomberg News reported Monday. Rurelec has agreed with other investors to purchase a 50 percent stake in Peru-based developer **Cascade Hydro**. Also, the London-based company has the option to acquire power plants with a total capacity of 32 megawatts that it may construct with the Peruvian company. Rurelec did not disclose the price it is paying for the acquisitions. Rurelec is aiming to have plants with a generating capacity of 100 megawatts by 2016 along the South American country's Pachacayo River,

“Peru has the perfect topography for this kind of project.”

— Peter Earl

Chief Executive Officer Peter Earl told the news service in a telephone interview. In May 2010, Bolivia's government seized Rurelec's majority stake in **Empresa Electrica Guaracachi**, which led Rurelec to study acquisitions in other Latin American countries, said Earl. The company also has a thermoelectric plant in Argentina. Run-of-river hydroelectric plants are particularly well suited for Peru's mountainous terrain, Earl added. "Peru has the perfect topography for this kind of project," he said. "You can capture the same water through a series of hydro plants without building a high-head dam."

### Featured Q&A

*Continued from page 1*

from Ciudad Juárez on the Texas border to Mazatlán (and, presumably, at a future date, onward south to make a complete circle with Guadalajara). The concept of such a pipeline dates from 1979 in a map of prospective pipelines that Pemex included in its annual report of that year. The government proposes to move CFE power stations inland from the border, thus artificially creating a 'need' for a gas pipeline. The pity is that it would be yet one more case of the CFE as the main creditworthy, anchor customer for mid-stream projects in Mexico. The government's imagination has not yet visualized a market-driven alternative. While the pipeline would seem to draw on U.S. shale gas, Pemex has also talked about its own shale resources. However, the outlook for Mexican shale gas is doubtful given its location is in desert regions where water supplies in the quantities necessary would be unavailable."

**A Duncan Wood, professor and director of the International Relations and Canadian Studies Programs at the Instituto Tecnológico Autónomo de México:** "The identification of the world's fourth-largest shale gas deposits in Mexico is truly a game changer for the country. From being a country that was relatively gas poor, it has the potential to become one of the world's gas superpowers. To do so will require massive investment on the part of Pemex to both develop the resource and to build the gas pipeline network needed to get the gas to market. Pemex currently lacks the funds and the expertise required and will therefore have to work with the private sector. Sources within Pemex are saying that this is the perfect opportunity to use the new incentive based contracts that have recently been issued for oil E&P. The recent announcement by Jordy Herrera that Mexico will focus on gas-powered electricity plants makes perfect sense in this context as the country can utilize its gas resources and benefit from the very low prices that are now predict-

ed for gas. This will help to drive competitiveness, not just of the energy sector, but of the economy in general, both in Mexico and in North America as a region. The decision to scrap plans to build new nuclear power stations is perfectly understandable too, particularly in the aftermath of the Fukushima disaster. Another impact of shale gas development on the energy sector in Mexico and the region will relate to renewable energies. Whereas cheap gas further reduces the competitiveness of renewable energy, gas-powered plants make a perfect backup for intermittent supply from wind and solar farms."

**A José Alberro, director of the Berkeley Research Group and former CEO of Pemex Gas and Basic Petrochemicals:**

"Mexico is updating its long-term energy strategy and, even though the final report will not be ready before early next year, recent speeches by high-level officials suggest a greater reliance on natural gas and a bet that solar energy will soon be competitive. Mexico's oil reserves are growing by leaps and bounds: first there was the EIA's estimate that technically recoverable shale gas reserves amount to 680 tcf; then there were the announcement that recently discovered traditional gas fields in the Gulf of Mexico have increased reserves by almost 1 tcf. President Felipe Calderón also announced a \$10.5 billion investment program to foster natural gas use: private and public funds will be used to expand the natural gas pipeline grid by 40 percent and local distribution networks by 125 percent. A few months ago, the energy undersecretary highlighted Mexico's solar potential, particularly in states where the incidence of solar radiation is estimated to be 6 kWh/m<sup>2</sup>/day, almost 50 percent above the average of several European countries which have invested significantly in solar energy. Indeed, the European Photovoltaic Industry Association estimates that the potential for photovoltaic generation could be

*Continued on page 4*

**Featured Q&A***Continued from page 3*

between 7 and 9 GW, but grid parity may be a few years off. Mexico needs to increase its electricity generating capacity by 30 percent over the next 30 years. It is unclear whether it is abandoning plans to build nuclear reactors as some observers would have it: while the former secretary of energy—who left office six months ago—seemed willing to consider the possibility of nuclear generation, no high level official has mentioned it since. Betting on off-the shelf gas technology and scrapping dangerous complex nuclear reactors does not seem foolish when gas futures continue to decrease and U.S. production of shale gas continues to grow, particularly given that Mexico just invested in three LNG regasification plants. As for the environment, few have really studied the long run gas/nuclear trade-off from that perspective."

**A David Shields, independent energy consultant based in Mexico City:** "Energy Minister Jordy Herrera wants to start a Mexican 'shale gas revolution.' Based on that vision, he says Mexico should focus on gas-fired power plants, rather than nuclear reactors, for future power expansions. He sees how shale gas has taken off in the United States and embraced the still-unproven estimate from the U.S. Energy Information Administration that Mexico could have a shale gas potential of 681 trillion cubic feet. Moreover, gas-fired power plants and gas pipelines take only two years to build, while nuclear power plants take 10 years. Also, unlike nuclear, natural gas development faces neither political nor social opposition. In other nations, talk of giant energy potential is enough to attract massive investment, but not in Mexico. U.S. wildcatters cannot get involved in Mexican shale gas because of legal restrictions that mandate state control over all oil industry operations, which are unlikely to be lifted by Mexico's nationalistic congress, whose attention is now focused on the 2012 presidential elections, not on energy

reforms. State monopoly Pemex has drilled only one shale-gas well, has no budget for shale gas and looks on oil as its priority, especially since gas prices are so low. Top energy industry officials acknowledge that successful shale gas development would require a wholly different industry structure, but that is definitely not on the politicians' agenda. So, Herrera's Mexican revolution may be no more than a damp squib, at least for a while."

**A Caldwell Bailey, editor of The Shale Report at Register Larkin Energy:** "Mexico has tremendous potential for shale gas development. But while it will help to lessen import dependence on the United States as Mexico builds more gas-fired power generation facilities, pretending that natural gas from shale will be a swift and solitary panacea for the country's energy woes will not help anyone. For many reasons, state-run oil and gas monopoly Pemex has disdained natural gas development over the years—thus the need for imported gas continues to increase. Despite the news of an abundant shale resource under their feet, decision makers in Mexico have yet to formulate a plan to exploit it with due haste. In fact, to date Pemex has drilled only a single shale gas well, back in 2010 in an area across the U.S.-Mexico border from Laredo, Texas in the Eagle Ford Shale. While nuclear plants may not be Mexico's best option for power generation due to their high construction costs and technical complexities, another compliment to natural gas-fired generation will have to emerge. Natural gas power plants, just like any other technology that is currently available, cannot carry the generation burden alone. In addition to this, pipeline construction is a matter often fraught with impediments in the best of environments. It is not clear to me whether this vital piece of the puzzle will progress as quickly and at such modest cost as Mr. Herrera and other Mexican officials hope. This will push out the impact of shale development to the medium- to long-term."

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