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FEATURED Q&A

How Are Shale Finds Reshaping Gas Markets in the Americas?

Q Only 19 percent of Trinidad and Tobago's liquefied natural gas (LNG) exports went to the United States in 2011, down from 89 percent of LNG exports in 2005, the country's government said in January. What factors are most shaping the LNG market this year in the Caribbean and elsewhere in the Latin America? What is the mid- and long-term outlook for LNG, a commodity in which companies and countries of the Americas have invested significant sums of money?

A Paulo Valois, partner at Schmidt, Valois, Miranda, Ferreira & Agel in Rio de Janeiro: "Before the U.S. government and the market started promoting shale gas, the strategy adopted by the United States was to secure the supply of natural gas from other sources and countries, such as Trinidad and Tobago. From the U.S. perspective, the appeal of shale gas is that it could supply the portion of natural gas needs that were to be secured from different international suppliers and markets. Shale has thus reduced the need for foreign natural gas sources and, as a consequence, may reduce U.S. natural gas imports. A similar situation could occur in South America, where Brazil still imports volumes of natural gas from Bolivia to supply its industrial needs. However, the exploration of the Brazilian pre-salt layer and the possible natural gas reserves (P2) which could be discovered during such exploration may cause a decline in such imports in the medium term. Furthermore, current natural gas prices are very close to the lowest prices of the last decade. This sharp decrease could present a short- to medium-term problem for investors in trying to recuperate their investments. Considering the above, the natural gas industry finds itself at a moment of dramatic change. It remains to be seen how it will develop in the future and how the countries and companies who have made these significant investments will deal with this changing scenario."

Continued on page 4

Indigenous Groups Converge on Quito to Protest Mining Policies

More than 1,500 indigenous protesters converged on Ecuador's capital city on Thursday to campaign against planned mining projects in the Amazon. Although the marchers brought the city to "a standstill," there were no apparent injuries or violence. See story on page 2.

Photo: El Comercio.

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NEWS BRIEFS

Pope Benedict XVI Begins Mexico, Cuba Tour Today

Pope Benedict XVI is scheduled to embark on a trip to Mexico and Cuba today. It will be the first visit of the leader of the Roman Catholic church to Spanish-speaking countries in Latin America, Voice of America reported. At age 84, Benedict's doctors have advised him to avoid the high altitude of Mexico City, so he is beginning his trip in Guanajuato. He will also travel to Cuba's second-biggest city, Santiago.

Costa Rica: APM Moves Ahead with $992 Million Port Project

Holland-based **APM Terminals,** a unit of shipping giant **Maersk**, said on Thursday it had won a concession in Costa Rica to develop the country's largest port. The 33-year concession will require an investment of $992 million from APM to design and operate a "worldclass container terminal" in the Caribbean port of Moin. The deal will be the largest single infrastructure project in the country, according to APM. Currently the Moin port handles 80 percent of Costa Rica's international commerce.

Peru Plans to Double Salaries of Police, Armed Forces in 5 Years

Peru's government is preparing legislation that would double salaries for the armed forces and national police within four or five years, state news agency Andina reported Thursday. Defense Minister Alberto Otarola told reporters that the proposed increase would place emphasis on raising the salaries of junior officers and said the measure was being worked on in collaboration with the ministries of defense and interior. The bill will be sent Congress by May, according to the report.

Political News

Indigenous Groups Converge on Quito to Protest Mining Policies

More than 1,500 indigenous protesters converged on Ecuador's capital city on Thursday to campaign against planned mining projects in the Amazon, local daily *El Comercio* reported. Although the marchers brought the city to "a standstill," there were no reports of injuries or widespread violence. Supporters of President Rafael Correa also came out in force, marching with the leftist leader from one of the capital's central parks to the steps of the legislative palace in Quito's old city. "We did not come to destabilize," said Humberto Cholango, head of the Confederation of Indigenous Nationalities of Ecuador (CONAIE), an umbrella group that represents indigenous peoples from around the country,

> "We cannot be beggars sitting on a sack of gold."
>
> — *Rafael Correa*

Reuters reported. The group supported Correa when he was elected in 2007, but have since accused him of caving into free-market forces. Indigenous leaders were further angered when Correa on March 5 signed an agreement with a Chinese firm to begin exploiting a potentially huge copper mine in the Amazon. The $1.4 billion pact with Chinese-financed mining firm **EcuaCorriente** would damage the Amazon's ecosystem, activists say. At the signing ceremony, President Rafael Correa said economic development must move ahead. "We cannot be beggars sitting on a sack of gold," Correa stated, a sentiment echoed by China's ambassador to Ecuador. The project will improve living conditions for local residents, and Chinese companies "will do their utmost to minimize the negative impacts of mining activities on the environment," Amb. Yuan Guisen told *El Pais* in a March 16 interview. Ecuador stands to receive $4.5 billion over the term of the agreement, while the company, which will begin production in late 2014, will invest $100 million from royalties to help develop neighboring communities. The state's share of mining income is 52 percent, higher than in countries like Chile, Peru and Mexico, which all take a cut of between 30 and 40 percent, AFP reported.

Economic News

Colombian Economy Expands at Strong Pace in 2011

Colombia's economy expanded at a strong 5.9 percent pace in 2011, Reuters reported Thursday. Central Bank data released this week shows that the Andean nation's booming oil and mining industries were behind most of the gains, the economy's best showing in four years. The real business cycle "proved to be virtually immune from global developments" in the second half of 2011, **Goldman Sachs** analyst Alberto Ramos said in a research note circulated Thursday. In the absence of signs of a slowdown, economic policymakers are keeping an eye on the near-term inflation outlook, as well as concerns over consumer credit growth and asset price bubbles, however. Burgeoning domestic financial conditions could set the stage for a round of central bank monetary tightening as a result, Ramos says, although the nation's policymakers have mixed views on raising interest rates.

Latin American Online Population Growth Fastest in World: Report

Latin America's online population grew faster than any other region in the world last year, Seattle-based research firm **comScore** said Thursday in a new report. The region's online population grew 16 percent last year to a total of 129.3 million visitors. **Google** sites topped the list as the most-visited property in December 2011, reaching 123.4 million visitors in the region, while **Facebook** accounted for 25 percent of all time spent online in the region. Social networking, which eclipsed portals as the "most-engaging" web activity in November last year, accounted for

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nearly 30 percent of online minutes, an increase of 9.5 percentage points over the past year, according to the report. Latin America is home to five of the "most engaged" social networking markets worldwide. Internet users in Argentina averaged 10.7 hours on social networking sites in December 2011, followed by Chile (9.5 hours per visitor), Peru (8.7 hours), Colombia (7.6 hours) and Mexico (7.1 hours).

Company News

Brazilian Beef Producer Criticizes Operating Climate in Argentina

The chief executive of Brazilian beef producer **JBS** said his company is on the verge of exiting Argentina due to a difficult business environment, suggesting that he won't tolerate further losses there, MarketWatch reported Thursday. "We've been leaving Argentina over time, if you look at the size of our operation there compared with what it is today," Wesley Batista said in a conference call to discuss fourth-quarter earnings. Argentina now represents less than 1 percent of JBS's total revenue, he said. JBS has closed five of its six slaughterhouses in Argentina, the last one as recently as February. The remaining slaughterhouse, in Rosario, is the company's largest in Argentina. While the company has been closing factories in a bid to gain efficiency across South America, Batista singled out Argentina in the call, noting that government restrictions on exports and large salary increases associated with high inflation have been to fault, MarketWatch reported. "If anyone in Argentina wants to help the system become easier to operate in, that would be very welcome," he said. Argentina's broader beef sector suffered last year from a 9 percent drop in the number of animals slaughtered nationwide on the heels of a drought. "It's a country that obviously has a lot of potential in agriculture and livestock, and it has a name in the beef business in the whole world," Batista said. "But there's one thing: we're not going to let ourselves lose money there any longer."

Election Outlook 2012

Dominican Republic

Current leader: President Leonel Fernández
Election date: May 20
Term Length: 4 years
Nominees: Danilo Medina, Dominican Liberation Party (PLD)
Hipólito Mejía, Dominican Revolutionary Party (PRD)
Notes: Two March polls give Medina the advantage, though neither place him above the 50 percent threshold needed to avoid a runoff. A Gallup poll found that Medina would win 48.7 percent of the vote compared to Mejía's 45.2 percent, while a poll conducted by the Greenberg Quinlan Rosner firm put Medina at 47 percent and Mejía at 46 percent. Mejía served as president from 2000 to 2004 and left office with a low approval rating amid an economic crisis. A former congressmen and secretary of state, Medina lost to Mejía in the 2000 election.

Mexico

Current leader: President Felipe Calderón
Election date: July 1
Term Length: 6 years
Nominees: Josefina Vásquez Mota, National Action Party (PAN)
Enrique Peña Nieto, Institutional Revolutionary Party (PRI)
Andrés Manuel López Obrador, Democratic Revolution Party (PRD)
Notes: The candidate with a plurality is elected regardless of whether he or she has won an absolute majority. Campaigning for the election does not legally begin until March 30, but polls currently place Peña Nieto as the front runner—possibly poising the PRI to return to power 12 years after the PAN ended its seven-decade reign. A poll conducted in mid-March by the firm GEA/ISA found Peña Nieto in the lead with 34 percent of the vote, Vásquez Mota at 21 percent and López Obrador at 15 percent, *Milenio* reported March 21. Vásquez Mota would be the country's first woman to win the Mexican presidency, while López Obrador narrowly lost the 2006 election to Calderón. Peña Nieto has been in the lead for more than a year, but his support has declined after a series of gaffes.

Venezuela

Current leader: President Hugo Chávez
Election date: October 7
Term Length: 6 years
Nominees: Henrique Capriles Radonski, Coalition for Democratic Unity (MUD)
Hugo Chávez, United Socialist Party of Venezuela
Notes: The Venezuelan president is also elected by a plurality vote. Two polls released earlier in March placed Chávez some 30 percentage points ahead of Capriles, but a new Consultores 21 poll released March 22 found the two were in a statistical tie, with Chávez favored by 46 percent of those surveyed compared with 45 percent for Capriles. While Capriles has been campaigning as a moderate, saying he would follow in the footsteps of popular ex-Brazilian President Luiz Inácio Lula da Silva, the race thus far has been dominated by speculation about Chávez's cancer, the type of which he has not disclosed. Chávez recently underwent a second surgery in Cuba and his prognosis remains shrouded in uncertainty.

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Featured Q&A

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Jonathan Benjamin-Alvarado, professor of political science at the University of Nebraska at Omaha: "Ultimately, this is all about the difference in the price of LNG in regional and global markets. The U.S. price is now below $3 per million British thermal units (MMBtu), down 70 percent from its price of $8.64 in 2005. Conversely, European, Asian and South American markets are averaging over $13 MMBtu—so the reasons are clear as to why we have seen such a dramatic reduction in the U.S. market share. Moreover, it is sound trade policy to diversify trading partners and not to be so reliant on a sole source supplier or buyer. This is why we have seen recent LNG shipments to Argentina and Canada, and why Trinidad and Tobago are negotiating with India to begin exporting LNG, especially if the Indians are offering additional incentives such as FDI in critical sectors, as was recently reported. Trinidad's reserves are in excess of 400 billion tons and Latin American economies are growing at rates of 4 percent. The future prospects look good with such growth rates and the widespread use of LNG in different economic sectors of developing economies. Most, if not all, international oil and gas companies (IOCs) are not bound to only servicing the interests of the U.S. market. Even if IOCs have dropped hundreds of millions of dollars to develop the LNG infrastructure in Trinidad, there is no assurance that the supply is dedicated to U.S. interests. Unlike Latin America and Asia, the United States has been slow to embrace LNG in the transportation sector, or to radically restructure and diversify its energy supply. There are other domestic market distortions and priorities that have driven both the demand and price down in the United States, so LNG producers adjust their strategies to maximize their returns. It does not directly imply that the U.S. share will continue to decline, but so long as the price remains low they will seek other markets in which to trade. The LNG producers have proven to be very flexible in responding to shifts in market profiles. Should market conditions change, they will adjust again."

Anthony T. Bryan, senior fellow at the University of the West Indies in Trinidad and Tobago: "Trinidad and Tobago's LNG exports to United States have dropped from 89 percent in 2005 to 17 percent currently, and 81 percent of its LNG exports now go to markets in South America, Europe and Asia, where prices for the commodity are higher. T&T's new LNG export thrust is primarily a response to new market opportunities. Despite a complex and capital intensive value chain, LNG is now regarded as a competitively-priced energy commodity, where once-rigid sales contracts are being replaced rapidly by short-term arrangements and arbitrage. If the International Energy Agency's *World Energy Outlook* proves correct, then natural gas is expected to play a much more significant role in the global energy matrix because of shale gas (as well unconventional gas such as coal bed methane) and LNG. Predictions are that LNG trading will grow twice as fast as the overall natural gas trade itself. The long-term outlook for the Americas is good with Brazil, Argentina and the United States (to a lesser extent) becoming major natural gas and LNG exporters. T&T's LNG future is also sound. It invented the LNG business in the Caribbean and despite expected competition from U.S. and Colombian LNG exporters, its producers intend to capitalize on the smaller regional markets in Central America and the Caribbean. With four existing LNG trains and the possibility of a fifth, it is well placed to compete. Hopefully, the geopolitical resource shift will work to its advantage and politics will not trump economics."

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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