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FEATURED Q&A

Will the Falklands See Continued Energy Investment?

Q Last month, the Argentine government said it had begun legal proceedings against five British oil companies it has accused of carrying out "illegal operations" in waters near the disputed Falkland Islands. It also asked stock markets in New York and London to warn investors of its claim that the exploration companies are working illegally. Will investors be scared away by the threats? What is the oil potential for the disputed islands and how will Argentina's campaign affect their development?

around 2003. Such attempts include banning flights, disrupting shipping links and making numerous threats against legitimate Falkland Islands businesses. At the present time, we know we have one good oil discovery—Rockhopper's 'Sea Lion' field in the North Falkland Basin, plus two other associated discoveries which have yet to be appraised. There remain numerous interesting prospects in both the North Falkland Basin and South Falkland Basin which have been mapped on seismic surveys but are as yet undrilled, and the only

Continued on page 3

A Stephen Luxton, director of mineral resources for the Falkland Islands government: "The Falkland Islands government's position is quite clear. It has no doubt about the right of the people of the Falkland Islands to self determination under basic United Nations principles, and no doubt that the Falkland Islands have the right to license, exploit and develop its own offshore resources, including fisheries and hydrocarbons. The Argentine government is attempting to enforce Argentine domestic legislation over a territory in which that legislation has no jurisdiction and is unenforceable. It seems unlikely that investors will be unduly concerned by this threat as the legal position is clear and it is simply the latest in a long line of Argentine attempts to undermine and disrupt the Falklands economy since



Companies to Invest \$1.56 Bn in Uruguay Oil Exploration

Four companies won bids to explore for oil off Uruguay's coast, Raúl Sendic, the president of state oil company Ancap, announced March 30. The firms will invest a combined \$1.56 billion over three years of exploration efforts. See story on page 2.

File Photo: Uruguayan Government.

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ENERGY SECTOR BRIEFS

Conduit Capital to Sell Stake in Peruvian Pipeline

Conduit Capital Partners said Monday that it has agreed to sell its stake in Peru's Southern Andean Pipeline to Brazilian conglomerate **Odebrecht**, Dow Jones reported. The 1,000-kilometer pipeline is being developed by **Kuntur Transportadora de GAS** and may require as much as \$4 billion in investment. President Ollanta Humala attended the launch of construction last week and called it the "most important project" of the last century. Officials expect that the pipeline will help the country develop a petrochemical complex on the southern coast.

Solazyme, Bunge to Build a Sugar-to-Oil Plant in Brazil

Solazyme and **Bunge** on Tuesday finalized an agreement to build a sugar-to-oil production facility in Brazil that will cost between \$90 million and \$110 million, Reuters reported. According to Solazyme Chief Executive Officer Jonathan Wolfson, the plant's products, which will have drop-in capabilities that would make it easy to substitute for existing supplies, will be sold into chemicals and fuel markets in Brazil. Shares of Solazyme soared 12 percent in trading on the news.

Pemex Inks Deal With Oil Cleanup Firm in Effort to Boost Safety

Mexico's **Pemex** on March 29 signed a contract with Houston-based **Wild Well Control**, a firm specializing in oil spill cleanups, in an effort to boost its safety controls, Bloomberg News reported. Pemex has made a significant commitment to explore for oil in deep waters in the Gulf of Mexico, with plans next year to drill six times deeper than it ever has before.

Oil & Gas News

Companies to Invest \$1.56 Billion in Offshore Exploration in Uruguay

BP, BG Group, Total and **Tullow Oil** won bids to explore for oil off Uruguay's coast, state oil company **Ancap** announced March 30, Bloomberg News reported. The four companies will invest a combined \$1.56 billion over three years of exploration efforts and Ancap will hold a minority stake in each of the concessions for 30 years. According to Raúl Sendic, Ancap's president, there were 19 bids for eight out of the 15 blocks that were offered, Reuters reported. "This is a really historic event, it points to an enormous amount of investment on the (continental) platform over the coming years," he said. Uruguay is hoping that the companies will discover deposits similar to those found off Brazil's Atlantic coast. The 19 offers were concentrated on the areas nearest the Brazilian border, with the Pelotas Basin receiving the most interest.

Argentina's Neuquén Province Revokes Energy Concessions

Argentina's Neuquén province on Tuesday stripped companies of their concessions for three energy fields, citing inadequate investment, Reuters reported, citing state-run news agency Telam. The move affects Brazil's state-run oil company **Petrobras** as well as Argentina's **Tecpetrol** and a subsidiary of Canada's **Azabache Energy**. In the past month, Neuquén has taken similar actions against YPF, revoking three of its oil field licenses. Neuquén "continues evaluating and analyzing other areas in which there is low or mid-range production, underinvestment or a lack of investment," provincial officials said in a decree, Telam reported. The province will transfer control of the three fields to Neuquén's state energy company, a move that officials claim would not affect energy sector activity or jobs. Chubut province also announced Sunday that it will revoke four of YPF's concessions, including its most productive field. The Manantiales Behr field accounted for 9.6 percent of

the company's output last year, according to Argentina's Energy Secretariat. In addition, Santa Cruz province announced on Wednesday that it may revoke three of YPF's permits for fields that produce 11 percent of the company's annual output. Since mid-March, YPF has lost 12 licenses in five provinces, Bloomberg News reported. The company last week announced a discovery of 1 billion barrels of oil equivalent in Mendoza province, which the company said proves the exten-

Since mid-March, YPF has lost 12 licenses in five provinces.

sion of the Vaca Muerta geology. Though the news sent shares soaring last week, increased speculation in media reports about a government takeover led to a decline this week. Argentine newspaper *Página/12* has cited unnamed officials in reporting that the government is planning to exert state control and is now focusing on how to do so.

Brazil's Petrobras Says it May Have Liability in Chevron Spill

Brazil's state-run oil giant, **Petrobras**, said in a regulatory filing that it may be liable for 30 percent of any damages U.S.-based **Chevron** must pay in connection with a November oil spill off Brazil's coastline, Bloomberg News reported Monday. Petrobras maintains a stake of 30 percent in the offshore Frade project, where about 3,000 barrels of oil spilled into the ocean. A Brazilian federal prosecutor's claim against Chevron and **Transocean**, which operated the drilling rig involved, is "unreasonable," Petrobras said in the filing on Friday. Chevron and Transocean are fighting several lawsuits, including one by Brazil's main oil workers' union, related to the November spill. This week, prosecutors filed another 20 billion reais (\$11 billion) suit over a second oil spill at the field. Prosecutors allege that the company committed errors that led to the leak in March, while a Chevron spokesman called the charges "without merit."

Featured Q&A*Continued from page 1*

real test of a prospect is the drill bit. Potential upside in the Falklands therefore remains just that at this stage—potential—but could be considerable in the event of further success. The drilling campaign underway in the South Falkland Basin will go some way to informing whether that potential is likely to become reality. For the time being, the Falkland Islands government does not propose to include oil revenues in its budget until those revenues become reality."

A **Juan Cruz Díaz, managing director of Cefeidas Group in Buenos Aires:** "There is no doubt that the legality of the drilling activities of companies exploring the waters of the Malvinas Islands is questionable. Investors should know that Argos Resources Limited, Borders & Southern Petroleum PLC, Desire Petroleum PLC, Falkland Oil and Gas Limited, and Rockhopper Exploration PLC are operating not only under very difficult and expensive technical conditions but also under high legal and political risks. While the exact amount of potential oil resources in the Malvinas is unknown, conservative estimates point to approximately 3.5 billion barrels. At the current level of oil prices, there are incentives to tolerate such risks. However, Argentina's increasing pressure to condemn the illegality of these activities is raising the visibility of the issue. In response, the United Kingdom claims that the companies' exploration activities are all legitimate and legal. The recent rhetoric escalation between Argentina and the United Kingdom around the 30th anniversary of the Malvinas War also added more drama to the dispute. But what is critical in my opinion is the explicit region-wide support for the Argentine claim, especially from Brazil, in many international forums. For Argentina, this is an issue that transcends the current government and claims will continue regardless of ideology or political positions of future administrations. If Argentina manages to maintain and consolidate the support of a region that is becoming increasingly relevant in geopolitical and economic terms, the demands highlighting the violation of international norms of those explorations might increase. In that scenario, it is in the companies' and investors' best interest to aim for a more negotiated framework between Argentina and the United Kingdom to make these activities viable and sustainable in the future."

A **Roger Cartwright, former regional coordinator with BP:** "Small AIM-listed companies, established to focus on the Falklands waters, are responsible for the current exploration activity. They are part of a high-risk sector, attracting investors willing to accept higher risks for higher returns. Political risk is integral to the upstream oil and gas business but has obviously increased with the recent threats from the Argentine government. Whereas these could have a chilling affect for some investors, others will focus on drilling results. The major oil companies, generally more sensitive to political risk, are not currently participating in Falkland's exploration. For them, relationships with the relevant governments (Argentina, the U.K. and potentially Brazil) would be a factor, along with their business exposure in the event of a dispute with any government. While sensible companies try to avoid disputes with governments, the scale of the potential prize will be key. The attraction of a huge oil find could lead companies to continue with their exploration program while seeking to manage the resulting political risk. The only significant oil find to date, Rockhopper Exploration's Sea Lion discovery, is currently being evaluated. A \$2 billion development has been discussed, anticipating production in 2016 and producing more than 400 million barrels, but funding isn't yet in place. Finding gas would generally be less attractive to investors, with potentially lower returns. Estimates of the volume of oil in the Falklands range from 8 billion to 60 billion barrels but it is still the early days in this oil province. Greater certainty must await further well results."

*Continued on page 6***Peruvian Government Reaches Agreement With Camisea Operators**

Peru's government on Tuesday reached an agreement with the operators of the country's giant Camisea natural gas field that ensures domestic supplies, Bloomberg News reported. The **Camisea Group** will devote Block 88, the field's largest block, entirely to domestic supplies and will seek reserves in nearby fields to supplement its supplies for export. The agreement ends eight months of negotiations and shouldn't jeopardize future investment, according to government and company officials. President Ollanta Humala pledged during his campaign to give priority to local projects before exports, since a lack of gas supply has delayed \$16 billion in investment projects, according to the National Society of Mining, Petroleum & Energy.

Colombia's Oil Output Rises With Increased Security

Colombia's oil output hit 951,000 barrels a day in March, up 7.2 percent from last year, as the government stepped up security in response to attacks on infrastructure, Bloomberg News reported Wednesday. In February, a pipeline attack contributed to a 4.8 percent drop in output.

Power Sector News**Chile's Supreme Court Rejects Appeals Against HidroAysén Project**

Chile's top court on Wednesday threw out seven appeals lodged against a multibillion-dollar hydropower project, clearing it to go forward, Reuters reported. Plans for the HidroAysén dam, a joint venture of **Endesa Chile** and **Colbun**, have led to major protests over potential environmental effects of the project in Chile's Patagonia region. A lower court previously rejected appeals in opposition to the project, which includes five power stations and plans to dam two rivers in order to generate 2,750 megawatts of electricity. "In today's resolution ... the Supreme court confirmed the rejection [of the

appeals]," said Jaime Rodríguez, a spokesman for Chile's high court. Chile has been beset by years of underinvestment in the country's power grid. In order to meet the demand, the country is estimated to need an additional 8,000 megawatts of capacity by 2020. While industry has argued hydroelectric dams are needed to supply energy to Patagonia, environmental groups counter that building new dams will damage rivers and flood valleys in the area. "It's not right to say a green light has been granted to the project," Patricio Rodrigo, executive secretary for an environmental defense group in Patagonia, told Reuters. "The company survived these appeals ... but criminal suits for tinkering with reports are ongoing."

Ingenostrum Announces \$1.9 Billion in Chilean Solar Investment

Spanish energy company **Ingenostrum** plans to invest \$1.9 billion to build six solar plants in Chile's northern Antofagasta region, EFE reported Wednesday, citing environmental regulators. The six plants will generate 688 MW of capacity and will be connected to the country's northern electricity grid. Ingenostrum is also considering building biomass plants in the south of the country and wind farms in the Coquimbo region at a cost of around \$400 million, Santiago Rodríguez, the company's director of strategic planning, told *Diario Financiero*. Renewable energy was one of the main areas of focus in Chile's new strategic energy plan, which was released last month. [Editor's note: See related Q&A about Chile's energy future in the March 26-30 [issue](#) of the *Energy Advisor*.]

Political News

FARC Rebels Free Captives Held for More Than a Decade

The Revolutionary Armed Forces of Colombia on Monday released 10 hostages—military members and police officers who were each held for between 12 and 14 years, the Associated Press reported. Though the rebel group said the

Comings & Goings

Marcos Jank announced March 27 that he will step down from the presidency of the Brazilian Sugarcane Industry Association (UNICA). Jank, who joined the organization in 2007, will stay on until a new president is appointed. During Jank's tenure, UNICA opened offices in Washington in Brazil and made strides to adopt socially and environmentally sustainable practices. Nonetheless, "there is still much to be done at UNICA and in agribusiness as a whole, because of its vital and growing importance in the search for solutions to major global issues connected to food and energy security, particularly considering population growth and the scarcity of natural resources," said Jank.



Jank

File Photo: Unica.

Houston-based **BPZ Energy**, which has concessions in Peru and Ecuador, announced Tuesday that Stephen Brand and Jerelyn Eagan will join the company's board of directors. Brand has worked in the oil and gas sector since 1976 and served as president of **ConocoPhillips'** Canada and Australasia business. He has also been an advisor for **Welltec** and **Clean Range Ventures**. Eagan joined the board of **Marine Spill Response Corporation** in January. She had a 30-year career with **Royal Dutch Shell** until 2005 and was CFO at Delta **Hydrocarbons** until 2009.

Ecuador's state-owned **PetroEcuador** hired Carlos Pareja as the head of refining operations, four years after firing him as president of the company for "poor management," Bloomberg News reported March 19. Pareja was most recently the country's deputy minister of oil and will replace Marcelo Robalino. Pareja was fired in 2007 while protests disrupted production at 47 wells and led President Rafael Correa to declare a state of emergency.

captives were the final ones being held by the FARC, some Colombian officials have said the group still holds as many as two dozen captives, including four Chinese oil workers kidnapped last June. President Juan Manuel Santos said the FARC's release of the captives was an important step in the right direction but by itself was not enough to merit peace talks that the FARC has been seeking. "When the government considers that sufficient conditions and guarantees exist to begin a process that brings an end to the conflict the country will know," said Santos.

Economic News

Rousseff Announces \$35 Billion in Stimulus to Boost Industry

Brazilian President Dilma Rousseff on Tuesday announced 65 billion reais (\$35 billion) in stimulus measures designed to boost economic growth in the region's largest economy, Bloomberg News report-

ed. Among the measures, which Rousseff said were aimed at countering "predatory" trade practices by wealthy nations, is the elimination of 12.1 billion reais in payroll taxes through next year for industries that have suffered because of surging imports. In addition, the government will provide 45 billion reais to state development bank BNDES in order to increase subsidized lending. Rousseff also said that her administration will also take further action to weaken Brazil's currency, which has gained 47 percent against the dollar since 2005. The rallying real has cut Brazil's trade surplus nearly in half from its record level of \$47.8 billion in May 2007. While other countries have weakened their currencies through low interest rates, Rousseff's government has imposed higher import tariffs, boosted taxes on foreign investment inflows and worked to increase consumption. "We won't hesitate to do whatever needs to be done, within our laws, to defend our companies, jobs and growth," Rousseff told business leaders Tuesday in Brasília.

Standard & Poor's Boosts Uruguay's Credit Rating to Investment Grade

Standard & Poor's raised Uruguay's credit rating on Tuesday to investment grade, a designation it has lacked for a decade, Bloomberg News reported. S&P boosted the rating to BBB-, the lowest investment-grade rating, with a stable outlook. **Fitch Ratings** and **Moody's Investors Service** have a credit rating one notch below investment grade for Uruguay. "Prudent economic policies in recent years, backed by a broad political consensus, have allowed Uruguay to grow rapidly and reduce its main credit vulnerabilities" said Buenos Aires-based S&P analyst Sebastián Briozzo in a statement. Uruguay lost its investment-grade rating in 2002 after Argentina's default on \$95 billion of debt. The neighboring country's crisis led to a currency devaluation and a run on bank deposits in Uruguay. Economy Minister Fernando Lorenzo said that regaining its investment-grade rating "will allow the country to better manage our liabilities."

Obama, Calderón, Harper Vow to Boost North American Jobs

During a meeting at the White House, the leaders of the United States, Mexico and Canada vowed Monday to reform regulations and boost trade in an effort to help create more jobs in North America, Bloomberg News reported. "Our three nations are launching a new effort to get rid of outdated regulations that stifle job creation," U.S. President Barack Obama said at a news conference alongside Mexican President Felipe Calderón and

Canadian Prime Minister Stephen Harper. Last year, trade among the three countries surpassed \$1 trillion for the first time, according to Obama. Economic and trade officials will soon begin work to streamline or abolish regulations that stifle trade in an effort to "make our joint economies stronger," the U.S. president added. Efforts are already in the works to cut transaction costs and boost trade in areas including standards for vehicle emissions, railroad safety and coordinating regulations on chemicals in the workplace. Obama, Calderón and Harper also condemned the increase in violence and drug trafficking that affects the three countries as Obama said his administration accepts responsibility for the demand for illegal drugs in the United States. Increasing levels of violence in Mexico have coincided with the expiration of an assault weapons ban in the United States, said Calderón. "If we don't have mechanisms to forbid the sale of weapons, such as we had in the 1990s, or for registry of guns, at least for assault weapons, then we are never going to be able to stop the violence in Mexico," he said. The Mexican and Canadian leaders also expressed interest to Obama in joining the Trans-Pacific Partnership, a proposed free-trade deal that the United States is leading. The talks include Chile, Vietnam, Australia, Peru, Singapore, Malaysia, New Zealand and Brunei. The nations involved would have to agree on any new countries joining the discussions. The Trans-Pacific Partnership would be the United States' largest trade accord since the North American Free Trade Agreement took effect in 1994.

POLITICAL & ECONOMIC BRIEFS

Rousseff's Approval Rating Hits 77 Percent in Recent Poll

Brazilian President Dilma Rousseff's approval ratings jumped to 77 percent in March, Dow Jones reported, citing a Ibope poll released Wednesday. Rousseff's approval increased from 72 percent in the previous December poll and overall approval of her government was steady at 56 percent. While more than half of respondents were satisfied with the government's actions to fight unemployment and poverty, fewer respondents were satisfied with the administration's efforts to control inflation, reduce interest rates and cut taxes.

Argentine Human Rights Secretary Eduardo Luis Duhalde Dies at 72

Argentina's human rights secretary, Eduardo Luis Duhalde, died Tuesday at age 72, the Associated Press reported. Duhalde, who rose to prominence through his denouncing of Argentina's military dictatorship in the 1970s and 1980s, had undergone surgery in February to treat an aortic aneurysm. Duhalde had been the country's human rights secretary since 2003.

Fitch May Cut Venezuela's Rating Amid Oil Dependence, Spending

Venezuela's dependence on oil revenues, higher spending and off-budget funds are among the reasons that **Fitch Ratings** may cut the country's credit rating, Bloomberg News reported Wednesday. The deficit of the central government may swell to 6.8 percent of GDP this year and a drop in commodity prices could leave the country vulnerable, Fitch director Erich Arispé said in a statement. Venezuela currently has a B+ rating, four levels below investment grade, putting it on par with Bolivia and Ghana.

Q&A Index

A review of the Featured Q&As in the *Energy Advisor* in the month of March.

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

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A Rosendo Fraga, director of the Centro de Estudios Unión para la Nueva Mayoría in Buenos Aires: "Thirty years ago, the economic value of the Falklands was determined only by fishing, which projected the possibility of income well above sheep rearing, the islanders' main economic activity then. Today, the volume of fishing around the Falklands amounts to billions of dollars. Since the 1990s, there has been the possibility of oil, which was confirmed by exploration results at the end of the last decade will begin to be extracted in this one. The market value of the five companies exploring in the four basins of the Falklands is measured in tens of billions of dollars. In the long term, the islands' strategic importance is related to the future of Antarctica—where both the

“The market value of the five companies exploring in the four basins of the Falklands is measured in tens of billions of dollars.”

— *Rosendo Fraga*

United Kingdom and Argentina claim sovereignty—and the possibility of exploiting its natural resources, as has already begun to happen in the Arctic. Today, the islanders have the world's fourth-highest GDP per capita after Qatar, Liechtenstein and Luxembourg, which is also four times that of Argentina. The economic significance that natural resources have acquired in recent years has been key to Argentina's recovery in the first decade of the century and also accounts for the sharp increase in economic importance of the islands to the United Kingdom. Within this framework, the British foreign secretary just again denied the opportunity to discuss sovereignty, proposing that the two countries work together economically. Meanwhile, Argentina rejects any

dialogue that does not include sovereignty. Today, the islands' economic value of the islands is the battlefield of the conflict, but, in the distant future, it may be the rallying point for the beginning of a solution, when reason begins to prevail over passion."

A Jorge Castro, president of Argentina's Institute for Strategic Planning: "The British government believes that the 'high quality' oil found 220 kilometers north of the Malvinas Islands represents reserves of no less than 200 million barrels, valued at \$25 billion. The magnitude of the find and the quality of the crude has made it one of the greatest discoveries of the past four years, at a time in which oil companies have undertaken an extraordinary exploration effort to meet energy demand that will grow no less than 50 percent over the next 20 years (according to the International Energy Agency, or IEA). The discovery completes the South Atlantic's transformation into a 'full sea,' with multiple interests and protagonists. It is a situation of 'geopolitical excess,' the opposite of what happened before 1982, when it was an 'empty sea' with a single focus; the sovereignty conflict between Argentina and the United Kingdom. The IEA estimates that the world is entering into an age of high petroleum prices, meaning that the \$110 per barrel that is expected this year won't be the peak, but rather the floor of an upward trend. The IEA notes that the entire increase in global demand will come from developing countries, led by Asia, and primarily China. In the bilateral conflict with Great Britain, Argentina finds itself in a situation of relative impotence. But this is an abstract finding, only valid in a South Atlantic considered an 'empty sea' and with Argentina structurally isolated; the opposite of the current situation. The world has changed after the global crisis and the axis of power can be found with China and Brazil, with Europe, including the United Kingdom, more and more marginal."

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