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FEATURED Q&A

What Does Repsol's Departure Mean for Cuba's Drilling Future?

Q Spanish oil company Repsol announced last month that it is withdrawing from Cuba after it failed to discover oil in an exploratory well. Repsol also came up dry when drilling in 2004 and now says that the risks no longer justify the expense for its blocks. Does Repsol's withdrawal have major implications for the future of drilling in Cuba? What are the next steps for the Caribbean nation's offshore projects?

A José Azel, senior scholar at the Institute for Cuban and Cuban American Studies at the University of Miami: "In April, Argentine President Cristina Fernández dramatically announced that the country was expropriating 51 percent of the interest in YPF, without announcing any compensation. In anachronistic language reminiscent of the last century, the nationalization rhetoric spoke of recovering control of Argentina's national patrimony. 'Efficiency and the motherland are not incompatible,' noted Fernández. Cuba, in ideological solidarity with the expropriation, applauded the Argentine decision and accused Repsol of having purchased its controlling interest in YPF for less than its fair value. The problem is that Repsol is a key Cuban partner in offshore oil exploration. In 2000, Repsol agreed to invest millions of dollars to financially and technically underwrite Cuba's search for oil and gas. Repsol invested heavily to avoid U.S. economic sanctions on Cuba by leasing an Italian deep-water drilling rig built in China and Singapore, which has less than 10 percent of U.S. components and flies the Bahamian flag. It is estimated that Repsol has spent $150 million in its Cuba operation since 2000. Repsol did not abandon its efforts in 2004 when it first came up dry and continued its labors for eight more years at an estimated cost of $150,000 per day. These are the operational and business risks inherent in oil exploration. However, Cuba's joy at the

Continued on page 4

Peña Nieto Names Colombia's Naranjo as Security Advisor

Enrique Peña Nieto (R), the frontrunner in Mexico's presidential race, on Thursday night named retired Colombian Gen. Oscar Naranjo as a security advisor. Naranjo was credited for helping to bring down drug kingpin Pablo Escobar. See story on page 2.

Photo: Peña Nieto campaign.

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NEWS BRIEFS

Colombian Lawmakers Approve Guidelines for Peace Talks

Colombia's Congress on Thursday approved a controversial measure outlining guidelines for peace talks with rebel groups, BBC News reported. The "Legal Framework for Peace" measure also calls for more lenient sentences for guerrillas if they confess to their crimes, lay down their weapons and compensate victims. Human rights groups and right-wing politicians say the law would allow rebels to get away with crimes. However, supporters have said the measure is a step toward peace in Colombia.

IIF Warns G-20 of Economic Risks Ahead of Meeting

The Institute of International Finance, a group of the world's largest financial institutions, on Thursday warned there is a significant risk of a global recession, the *Financial Times* reported. IIF managing director Charles Dallara wrote Mexican President Felipe Calderón an open letter saying that the G-20 summit, which is to take place in Los Cabos on Monday and Tuesday, will be watched for evidence of a coordinated response.

Mexico's Carlos Slim Buys Stake in YPF

Mexican billionaire Carlos Slim has bought an 8.4 percent stake in Argentina's recently nationalized oil company **YPF**, Dow Jones reported Thursday. YPF's American depositary shares rose 8.1 percent in after-hours trading in New York on the news. "The market's concern is related to YPF's management and how much liberty it will have … But if someone like Slim has invested, it's a good sign," said Juan Jose Vazquez, an analyst at **Bull Market Brokers** in Buenos Aires.

Political News

Peña Nieto Names Colombia's Naranjo as Security Advisor

Enrique Peña Nieto, the frontrunner in Mexico's presidential race, on Thursday night named Oscar Naranjo, the retired Colombian general who helped to bring down notorious drug kingpin Pablo Escobar, as a security advisor, the Associated Press reported. If he wins the July 1 election, Peña Nieto will be handed Mexico's drug war, which has left some 47,000 people dead since current President Felipe Calderón took office in December 2006. In naming Naranjo as an advisor, Peña Nieto said Colombia has won success in its fight against drug traffickers. Peña Nieto, of the Institutional Revolutionary Party, or PRI, also repeated his vow to reduce crime in Mexico. That focus, in contrast to Calderón's aggressive offense against the cartels, has led some analysts to believe that drug dealers might be left alone if they are discreet. However, Naranjo said cartels would be dealt with equally. "There can't be inequalities in the treatment of criminals," Naranjo said at a news conference, alongside Peña Nieto. "A criminal is a criminal." During his 36-year career in Colombia, Naranjo, 55, worked closely with U.S. authorities and his appointment indicates that Peña Nieto would maintain Mexico's current close relationship with the United States on security matters. Naranjo has been working with Latin American countries, including Mexico, as a security consultant. On Thursday, a new poll from **Consulta Mitofsky** showed that Peña Nieto had 37.8 percent support, a 0.6 percentage-point increase from a poll earlier in the week, Reuters reported. Support for Andrés Manuel López Obrador of the Party of the Democratic Revolution fell 1.1 percentage points to 24 percent. Support for Josefina Vázquez Mota of the ruling National Action Party rose 0.6 points to 21.6 percent. The poll was conducted after a presidential debate Sunday, which 58 percent of those polled said Peña Nieto won.

> "There can't be inequalities in the treatment of criminals."
>
> — *Oscar Naranjo*

Company News

Stanford Sentenced to 110 Years for Running $7 Billion Ponzi Scheme

R. Allen Stanford, the financier who led a lavish lifestyle that included yachts, private jets and homes around the world, was sentenced Thursday to 110 years in prison for bilking his investors through a $7 billion Ponzi scheme. Stanford, who was convicted of orchestrating the scheme through the bank he controlled on the Caribbean island of Antigua, told U.S. District Court Judge David Hittner, "I'm not a thief," *The Wall Street Journal* reported. In a statement that lasted more than a half hour, Stanford told the judge in a federal courtroom in Houston that his **Stanford International Group** was a legitimate enterprise. "I didn't run a Ponzi scheme, I didn't defraud anybody, and there was never any intent to defraud anybody," said Stanford. He added that his business was ruined when the U.S. government used "Gestapo tactics" to freeze his assets. Federal prosecutor William Stellmach called the statement "obscene" and used it to argue for a 230-year maximum sentence. "Billions of dollars have been lost, and lives have been ruined by this man's crimes," Stellmach told the judge. "For two decades, he ruthlessly preyed on people, and he doesn't have an ounce of remorse." In addition to imposing the prison term, which will amount to a life sentence for Stanford, 62, Hittner also ordered him to forfeit $5.9 billion, the amount his company claimed to have in deposits. Victims of Stanford's scheme will

Stanford

File Photo: Reuters.

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receive compensation from the money U.S. authorities are able to recover. Angela Shaw Kogutt, director of the Stanford Victims Coalition, spoke on behalf of those who had invested money with the former billionaire, dozens of whom were present in the courtroom. "This was not a bloodless financial crime carried out on paper," she said, *The Wall Street Journal* reported. "It has taken a staggering toll on victims around the globe. It can only accurately be described as an act of financial terrorism." Stanford received a sentence that was 40 years shorter than the one given to financier Bernard Madoff, who pleaded guilty in 2009 to running a $17.3 billion Ponzi scheme. Lawyers for Stanford had asked the judge for a sentence of no more than 10 years and said they would appeal the 110-year term. Stanford was charged in 2009 of selling fake certificates of deposit through his Antigua-based bank, telling investors that their money would be invested in stocks and bonds. Instead, Stanford poured $2 billion into his own businesses and risky real-estate deals, prosecutors argued. Stanford then bribed a regulator and an auditor in Antigua in a cover-up effort, prosecutors added.

Brazil's Petrobras Revises Output Down, Spending Up

Brazilian state oil producer **Petrobras** on Thursday revised its five-year forecast, saying that spending would increase but its target output will drop by 11 percent, Dow Jones reported. Petrobras, which revises the forecast annually, said that global output is now expected to be 5.7 million barrels a day of oil and gas, down from its previous estimate of 6.4 million barrels. The company also plans to increase spending to $236.5 billion through 2016, a 5 percent increase from the previous plan. Around $141 billion will go toward exploration and production as the country attempts to develop its massive offshore resources. "Petrobras' production has been disappointing and is below what has been projected for the last two years," said Erick Scott, an analyst at São Paulo's **SLW** brokerage. Scott added that Petrobras ascribes its disappointing performance to maintenance stoppages. Over the five-year period, the company aims to finance its spending by borrowing $16 billion to $18 billion per year. It also plans to raise revenue by selling $14.8 billion in assets, with a focus on overseas holdings. Petrobras budgeted Brent crude-oil prices at between $90 to $100 a barrel for the forecast.

> "Petrobras' production has been disappointing and is below what has been projected for the last two years."
>
> — *Erick Scott*

Legal Briefs

Mexico to Implement New Witness Protection Law

The Mexican government on June 8 announced a new witness protection law that authorizes benefits for people who are at risk as a result of their role in legal proceedings, including providing new identities when necessary. Other provisions include eligibility for health care, counseling and temporary housing, EFE reported. Mexico's attorney general said the program is open to witnesses, victims, judges, police, forensic technicians and court officials. The law, which will take effect within six months, creates an autonomous protective unit within the attorney general's office.

Siqueira Castro-Advogados Incorporates New Intellectual Property Team

Siqueira Castro-Advogados last month incorporated the entire IP team from the São Paulo firm **De Vivo, Whitaker, Castro e Gonçalves Advogados**. Márcio Costa de Menezes e Gonçalves is the new head of the office and he brings five lawyers as well as trainees and administrative staff. "We are taking an important step towards the consolidation of our full service operation in the IP area, which has become one of the major areas here at Siqueira Castro-Advogados in the last few years," said Carlos Fernando Siqueira Castro, the firm's managing partner.

Four White & Case Partners Leaving Mexico City Office to Launch Boutique

Four partners at **White & Case**'s Mexico City office have resigned from the firm to launch an administrative litigation boutique, *The Lawyer* reported May 24, confirming the departures with Vicente Corta Fernández, the executive partner of White & Case's Mexico City office. The head of the firm's dispute practice, Juan Pablo Rico, and corporate mergers and acquisitions partner Iván Libenson Violante are leaving along with litigation partners Gustavo Robles Cuevas and Eugenio Bernal. Eugenio Sepúlveda Cosío, who headed White & Case's Monterrey office, also left June 1 to join boutique finance firm **Heather & Heather**, which former White & Case partner Thomas Heather set up in 2010.

Glick Named Co-Chair of American Bar Association Committee

Leslie Alan Glick has been appointed the co-chair of the Mexico Committee of the American Bar Association's Section of International Law. Glick is a partner in the Washington office of **Porter, Wright, Morris & Arthur**. He is an expert on international trade and customs law and has extensive experience with U.S.-Mexico trade issues. His term will begin on Aug. 1.

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Featured Q&A

Continued from page 1

misfortune of its business partner losing its Argentine investment must have made Repsol executives cringe with the thought of 'with a business partner like Cuba, who needs enemies?' In the calculus of current and prospective investors in partnership with Cuba's government, what may have been considered acceptable business risks must now be recalculated to include prohibitive host-country political risks. This does not bode well for Cuba's offshore projects. But it is not so much a case of dry wells as it is a case of having an avowed ideological enemy as a business partner."

> "It is not so much a case of dry wells as it is a case of having an avowed ideological enemy as a business partner."
>
> — *José Azel*

A Jonathan Benjamin-Alvarado, professor of political science at the University of Nebraska at Omaha: "Cuba's offshore exploration does not end with the departure of Repsol. Already, Scarabeo-9 is going to be put to work to the northwest of Havana for Petronas, and it will be continuing work offshore until the end of 2012. Repsol's decision was a purely economic one. Having already spent $100 million in Cuba, and seeing its YPF operations in Argentina nationalized, Repsol rightly is scaling back its international exposure at this time. I think the lesson learned here is that in spite of the concerted international effort to bring Cuban oil into the global market, the costs imposed by the U.S. embargo and export control restrictions on first-generation oil production technologies are too high given that under normal circumstances there would have been no need to bring Scarabeo-9 halfway around the world at such an steep price, especially when state of the art technology sits at the ready directly north on the U.S. Gulf Coast. In light of that, the U.S. embargo is working."

A Kirby Jones, president of Alamar Associates in Bethesda, Md.: "Of course, there must be great disappointment about the results from Repsol's recent drilling. How could it be otherwise? Repsol has worked for many years in Cuba and invested significant funds to do so. And for the Cuban government, the finding of oil and natural gas would mean so much for the future. But as many experts have said, exploration is at best a tricky business and supremely risky; more turn up dry than not. But these same experts also know that there is an abundance of oil in the Gulf and that oil knows no boundaries. Both the United States and Mexico have oil in their parts of the Gulf. Several consortia are in line for continued exploration, so it is too early to pronounce the entire effort at a dead end. For the Cubans and their many other partners, it may be just a matter of time. The current joy on the part of the perpetual 'Cuba haters' may be short lived."

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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