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FEATURED Q&A

Will Cuba's Electricity Sector Hold the Country Back?

Q A massive power outage hit two-thirds of Cuba's provinces earlier this month, a sign of the country's aging infrastructure. According to analysts, modernizing the system could cost several billion dollars. Meanwhile, two recent attempts at exploratory drilling off the Cuban coast have been unsuccessful. Will the electricity sector hold the country back as the government takes steps to liberalize the economy and increase consumption? How serious are Cuba's energy woes? Is the government partly at fault for mismanaging the sector, as some critics allege, or are sanctions entirely to blame?

A Jonathan Benjamin-Alvarado, professor of political science at the University of Nebraska at Omaha: "Without a doubt, the electricity sector will hold the country back. This has been one of the lingering questions related to the modernization of Cuba's infrastructure since the end of the Cold War. Cuba has been deeply concerned about replacing its aged and perhaps now obsolete electrical transmission and delivery systems. Educated estimates place the regular losses of electricity as high as 20 percent. The impact is a zero-sum; any gains to dedicated sectors of the economy, such as hotels, transportation and manufacturing, necessarily imply a direct loss to the housing sector. This could also have a significant chilling effect on the emerging commercial sector. Cuba has been in an energy crisis since 1992 and has weathered the storm rather well considering the up-and-down nature of its energy supply and chronic infrastructure problems. It has dealt with the loss of energy generation facilities by increasing the output of those remaining online and increasing efficiency across the entire energy spectrum. But, as we can see, it is not enough. Cuba is dealing with a double-edged sword. While attempting to address its infrastructure

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FARC Infrastructure Attacks Down Ahead of Talks

The number of attacks on infrastructure and the energy sector has declined in the past month, after the announcement of peace talks between Colombia's government and the FARC, said Ecopetrol's chief financial officer, Adriana Echeverri. See story on page 2.

File Photo: Ecopetrol.

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ENERGY SECTOR BRIEFS

Arbitration Panel Awards Conoco $66.8 Million in Venezuela Case

The International Chamber of Commerce's international arbitration panel on Sept. 21 awarded **ConocoPhilips** $66.8 million in a dispute with Venezuela's state-run **PDVSA**, Dow Jones reported. The tribunal ruled that PDVSA breached agreements in 2006 and 2007 by implementing cuts mandated by OPEC and mandated that the company pay for lost revenue. ConocoPhillips also has a separate case pending against the country over the nationalization of its assets, which took place after the cuts.

Bridas Concludes Purchase of Exxon Mobil's Campana Refinery

Bridas Corp. has completed the purchase of **Exxon Mobil**'s Campana refinery in Argentina and the company's gasoline stations in Argentina, Paraguay and Uruguay, Dow Jones reported Thursday. The deal was announced last March and no price was publicly disclosed. Bridas, which is owned by **China National Offshore Oil Corp.** and the Bulgheroni family, will continue to use the Esso brand and plans to increase the capacity of the refinery by 50 percent for gasoline and 60 percent for diesel.

Batista Discussing Sale of OSX to Sete Brasil

Billionaire Eike Batista is discussing the sale of his shipbuilder, **OSX Brasil**, to oil-rig operator **Sete Brasil Participações** in exchange for a stake in the startup company, Bloomberg News reported Sept. 21. Under the proposal, OSX would work with Sete Brasil to provide services to state-owned **Petrobras**, the news service reported, citing a source who was unnamed because of the private nature of the talks.

Oil & Gas News

FARC Infrastructure Attacks Down Ahead of Talks: Ecopetrol

The number of infrastructure attacks has declined on the eve of talks between Colombia's government and the Revolutionary Armed Forces of Colombia, or FARC, state-run energy company **Ecopetrol** said Thursday, Bloomberg News reported. In recent months, the rebels had increased attacks on pipelines and fields, forcing the company to cut output targets. But last month, the government announced the first peace talks in more than a decade and the attacks have markedly slowed down. "This month we had only three attacks, which is nothing compared to the historical numbers," said the company's chief financial officer, Adriana Echeverri. She added that the government has invited a non-executive director from the company to take part in the peace talks, which are set to begin in Oslo in October. A series of killings, kidnappings and bombings have damaged the country's image and its output. But whereas previous months saw an output loss of about 9,000 barrels a day, that figured dropped to 3,000 barrels of oil in the last month, Reuters reported. Chief executive officer Javier Gutiérrez estimated that the attacks will have slowed Ecopetrol's production by 1 percent for the year. However, he remained confident that the sector would continue growing, with 80 companies expressing an interest in the country's next round of licensing. "The majors are returning to Colombia," said Gutiérrez. [Editor's note: See related Q&A about the peace talks in the Sept. 4 issue of the Dialogue's daily *Advisor*.]

> "This month we had only three attacks, which is nothing compared to the historical numbers."
>
> — *Adriana Echeverri*

Petrobras Charged with Environmental Crimes After Spill

Brazilian state-run oil company **Petrobras** has been charged in the wake of a spill at its Duque de Caxias refinery in June 2011, Reuters reported. In a statement released Monday, Public Prosecutor Renato Machado charged the company and two employees individually with environmental crimes. The refinery "acted with complete negligence. They knew since 2007 at least that the treatment stations were obsolete and not functioning adequately and they did nothing," said Machado. Meanwhile, the Brazilian Oil Workers Federation, or FUP, undertook a 24-hour "warning" strike on Wednesday. Petrobras said that crude-oil production and fuel supplies weren't affected and that it "awaits the return of unions to the negotiation table." The company last week offered a 6.5 percent raise and a one-time bonus, but workers are seeking a 10 percent raise. Also this week, Petrobras said that it has leased two liquefied natural gas ships from Woodlands, Tex.-based **Excelerate Energy**, Reuters reported Wednesday. The company said it will use the ships to transport and store LNG. The ships will allow for the transportation of 165.5 cubic meters of natural gas, enough to supply Brazil's needs for 2.5 days, according to the country's Ministry of Energy and Mines.

> *Workers are seeking a 10 percent raise.*

Power News

Brazilian Wind Capacity to Grow by 11 Times: Report

Wind power in Brazil is expected to grow by 11-fold through 2021, outpacing all other power sources, a government energy report found, Bloomberg News reported. The Ministry of Mines and Energy expects the country to reach 65.9

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gigawatts of installed wind capacity by 2021. "Contracts signed during the last few years show that wind farms have managed extremely competitive prices, which has spurred the creation of a national industry for equipment to serve the market," said the report. Meanwhile, France's **Alstom** said Thursday that it will supply 122 wind turbines for two projects that **Queiroz Galvão** is developing in northeastern Brazil, Reuters reported. The contracts are worth 270 million euros ($346.68 million) and the turbines will be produced at Alstom's new manufacturing plant in Bahia state.

Paraguay to Increase its Energy Usage: Franco

"We are no longer going to hand over our energy," to Brazil and Argentina, Paraguayan President Federico Franco said Tuesday in an interview with Bloomberg News. Franco, who took office after Congress impeached President Fernando Lugo in June, said he plans to develop the country's industrial sector and will use more of the energy that it is entitled to from two hydroelectric dams that sit on its borders. "We're going to develop internal markets, we're going to industrialize our country and Paraguay will no longer just be a country that exports cattle and agricultural goods," he said. Currently, Paraguay only uses a fraction of the energy produced at the Itaipu dam—using energy from only two out of the 11 turbines that it has a right to use—selling the remainder to Brazil, Bloomberg reported. Jorge Samek, the Brazilian head of Itaipu, said that his country supports Paraguay's development and has sufficient energy sources. "The Brazilian government has made all efforts to industrialize Paraguay … The Brazilian government wants Paraguay to consume more energy," he said. Paraguay also reached an agreement with the Argentine government earlier to increase investment in the Yacyretá dam, which

Franco

File Photo: Paraguayan Government.

Featured Q&A

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problems, it simultaneously has to deal with a significant shortfall in investment capital and resources. Invariably, this leads to piecemeal efforts that are never comprehensive enough. Could there be better project management and prioritization in the effort? Without a doubt, but in most cases it is akin to putting out a fire with a squirt gun. In this vein, the sanctions work very well. By limiting Cuba's access to the kind of funding for large infrastructure projects from the IMF, World Bank and IBRD, the United States ensures that Cuba's infrastructure will remain a basket case. No other country in the hemisphere is so summarily isolated or could use that type of investment capital more. The United States could potentially play a significant role in addressing the problem and I imagine that the Cubans would welcome its input. But, for now, that is impossible and the Cuban energy infrastructure continues to age and fall apart. Considering that much of it was built from the 1920s until the early 1960s, I am surprised they've kept it together this long."

A José Azel, senior scholar at the Institute for Cuban and Cuban American Studies at the University of Miami: "This query concludes with a predisposed question unabashedly implying that U.S. economic sanctions are the principal cause of Cuba's energy woes, it asks: 'Is the government partly at fault for mismanaging the sector, as some critics allege, or are sanctions entirely to blame?' Nonsense, many countries make excellent products and since no other nation enforces economic sanctions on Cuba, and the country is free to purchase its equipment and other needs from anywhere else in the world, why would the inability to purchase American products be at fault? Doesn't any other nation make products suitable for Cuba's needs? Cuba's energy disrepairs are critically serious and the Cuban government is not just partly at fault for mismanaging the sector. The failure in implementing effective economic reforms is rooted in the pathology of thought of the country's ruling elite. It is this pathology of thought that economist and political philosopher Friedrich A. Hayek described in his influential work 'The Fatal Conceit: The errors of Socialism.' As Hayek explained, central plans fail with unforeseen and unintended consequences because all variables are not known or even knowable to the central planners. It is quite a conceit to believe, as Cuban central planners do, that one individual or one ministry or one central committee can gather and understand all available information to design an efficient economic system. The tragedy of communism is both its mistaken view of how an economy works and its glorified view of its own rational capabilities. The Cuban government's hubris on riding the intellectually dead horse of central planning to liberalize its economy showcases its 'Fatal Conceit.' "

A Johannes Werner, editor of the *Cuba Standard*: "Cuba's energy woes will continue to be a major bottleneck for economic growth. If PDVSA doesn't strike oil within the next few days, the island's deepwater oil plans will have to be put on hold for several years. That said, Cuba's challenges need to be put in context: it is not the only country in the region facing dependency on costly imported fuel and aging or insufficient infrastructure. Look at the Dominican Republic, Nicaragua, Jamaica or even Brazil, and you will realize that frequent and extended blackouts are part of everyday life. All these countries—with both private and publicly run utilities—are facing similar challenges. The main differences are that Cuba has not ceded control to the private sector and it faces the added obstacle of having no access to multilateral loans and paying a premium for foreign private-sector credit. I don't expect the government to cede control to foreign, private-sector

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supplied about 15 percent of Argentina's energy in 2010. Argentine officials declined to comment about how an increase in Paraguay's energy consumption would affect the country, which has suffered from insufficient investment in its energy sector. In related news, Argentine officials are seeking financing from China and Russia for two hydroelectric dams in Santa Cruz, Dow Jones reported. The two dams, which are estimated to cost just under $4 billion, are expected to provide 4.7 percent of the country's electricity use. Planning minister Julio De Vido, who will also seek funding from Brazil's national development bank, said he expects construction to begin in the first half of 2013.

Brazil's Equatorial Energia Acquires Struggling Celpa

Brazil's **Equatorial Energia**, on Tuesday announced that it has reached an agreement to acquire **Centrais Elétricas do Pará** (Celpa), which is currently going through bankruptcy proceedings, Dow Jones reported. Equatorial Energia, which is controlled by the private equity fund Vinci Partners, paid one Brazilian real for the struggling power distributor. Celpa, which serves the state of Pará, has 3 billion reais in debt and Equatorial plans to invest 700 million reais over the next two years in the company, newspaper *Valor Econômico reporte*d. "The transaction should contribute to moving the company out of bankruptcy protection given support by several of Celpa's creditors and Equatorial's track record in acquiring and promoting the turnaround of an energy distribution company, **Companhia Energética do Maranhão**, several years ago," said **Fitch Ratings** on Wednesday.

Equatorial Energia paid one Brazilian real for the struggling power distributor.

Political News

Guatemalan President Calls for Debate on Drug Decriminalization

Guatemalan President Otto Pérez Molina on Thursday repeated his call for debate on decriminalization of drugs, saying that current prohibitionist policies are not working. In an interview in New York with Fox News Latino, Pérez Molina said calling for debate on decriminalization is part of his "iron fist" approach toward dealing with the region's drug violence. "It's the first time that a president in power dares to say that other routes have to be found for the war on drugs," said Pérez Molina. "And that's part of what we always said: the iron fist is character, it's firmness, it's determination and it's the political will to want to do things." On Wednesday, Pérez Molina joined Presidents Felipe Calderón of Mexico and Juan Manuel Santos of Colombia in calling for debate on new ways of dealing with drugs in speeches to the U.N. General Assembly. In his U.N. speech, Calderón said drug consuming nations must "evaluate with all sincerity, and honesty, if they have the will to reduce the consumption of drugs in a substantive manner," the Associated Press reported. Santos told the United Nations, "It is our duty to determine—on objective scientific bases—if we are doing the best we can or if there are better options to combat the scourge." In his interview with Fox News Latino, Pérez Molina added that countries should regulate drugs based on how dangerous they are. "In the case of marijuana, there are scientific studies that state that it creates less addictiveness and it's less dangerous than alcohol and tobacco," he said.

Pérez Molina

Photo: Fox News Latino.

Argentina Gives Clarín Deadline to Sell Broadcast Stations

The government of Argentine President Christina Fernández de Kirchner on Saturday gave **Grupo Clarín**, one of its fiercest critics, a Dec. 7 deadline to sell most of its broadcast stations, forcing it to comply with a 2009 media law that limits the number of stations any single company can own, the Associated Press reported. In addition to its daily newspaper, Clarín owns 240 cable networks, 10 radio stations and four television channels. The media law limits companies to holding licenses for 24 cable networks and 10 radio and television licenses, Bloomberg News reported. Clarín contends that it should have another year to challenge the law even if its injunction expires on Dec. 7. In a television commercial, the government said the deadline, which it referred to as "7D," would boost "diversity and democracy" in the South American country's media. If Clarín doesn't sell off the broadcast properties by the deadline, the government will put them up for public auction, the government said. "The Argentine state will not nationalize the news media. The Argentine state will guarantee their jobs and compliance with a law that democratizes the news media in the Argentine republic," said the announcement. Clarín released its own commercial, accusing Fernández's government of acting illegally and arguing that the media law allows companies one year to divest themselves of properties. "What's this 'official story' trying to accomplish? To lay the groundwork for something else? To bring an end to the rule of law in Argentina?" Clarín's spot said. In an online edition, Clarín's flagship newspaper suggested that the government set the deadline in retaliation for the newspaper's coverage of anti-government protests last week. "The government announced this nine days after Grupo Clarín's media outlets were nearly the only ones who covered the massive mobilizations and 'cacerolazos' against the government, while media that depend directly or indirectly on the government decided to ignore or minimize these protests, in coordination with the line that came down from the Casa Rosada," it said

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Economic News

U.S. May Scrap Tomato Deal With Mexico, Risking Trade War

The U.S. Commerce Department signaled Thursday that it might squash a 16-year-old trade agreement with Mexico over tomato imports, placating tomato growers in Florida, the Associated Press reported. The change would let tomato growers in the United States seek anti-dumping duties on fresh Mexican-grown tomatoes. U.S. growers have argued that the current agreement is outdated and that Mexican tomatoes are harming the U.S. industry. Under the agreement, which was struck in 1996, the United States has set a minimum price at which tomatoes from Mexico can enter the country, *The New York Times* reported. Sales of tomatoes from Florida have since fallen to as low as $250 million per year, from as high as $500 million annually, Reggie Brown, executive vice president of the Florida Tomato Exchange, which has led the effort to scrap the accord, told the newspaper. In the past 16 years, the value of Mexico's tomato exports to the United States has more than tripled to $1.8 billion annually, according to Mexican Economy Minister Bruno Ferrari. After the U.S. Commerce Department signaled that it may side with the Florida growers, Mexican officials threatened to retaliate and said the move is an attempt by the Obama administration to placate residents of Florida, a crucial swing state, ahead of the U.S. presidential election on Nov. 6. Mexican tomato growers want to find a "mutually satisfactory" solution, Mexico's Economy Ministry said Thursday. "The Economy Ministry expresses its deep concern over the negative impact this preliminary decision could have on our bilateral trade relationship," the AP reported. It added that scrapping the deal would lead to higher prices for U.S. consumers. The Mexican growers have the support of retailers including **Wal-Mart**, who are concerned they might need to raise tomato prices, *The New York Times* reported. Growers of other produce are also worried their goods could be caught in a trade war.

Ferrari

File Photo: Mexican Government.

China Inks Deal to Help Venezuela Develop Gold Mine

Chinese officials signed an agreement on Sept. 21 to help Venezuela develop Las Cristinas, one of the world's largest gold mines, the Associated Press reported. Venezuela's government and state-owned **China International Trust and Investment Corp.** agreed to jointly develop the mine in southern Bolívar state, which is believed to hold approximately 17 million ounces of gold. Officials did not describe the details of the agreement, but they said it provides for construction, engineering and processing of gold and copper. Venezuela previously rescinded a contract that had been granted to **Crystallex International Corp.** to develop Las Cristinas. The Toronto-based company announced that it was seeking international arbitration to recover $3.8 billion it claimed it was owed in compensation. Officials of the two countries also agreed to create a map of mineral deposits in Venezuela, said Venezuelan President Hugo Chávez. After meeting with Chinese officials at the presidential palace in Caracas, Chávez said the countries also agreed to expand their cooperation in Venezuela's oil sector. China has become the South American country's largest creditor, offering it loans totaling more than $36 billion. Venezuela is paying off the loans with oil shipments to China.

Belize Remains in 'Selective Default' After Partial Payment

Ratings agency **Standard & Poor's** said Sept. 21 that it was maintaining a "selective default" foreign currency rating on Belize even after the country paid half of a $23 million debt payment last week, BBC News reported. The country made the payment after missing its Aug. 20 due date and won a temporary reprieve from bondholders. A committee of creditors has agreed not to pursue legal recourse for an additional 60 days, giving time for restructuring talks to move forward.

POLITICAL & ECONOMIC BRIEFS

Google Brazil Loses Appeal, Takes Down YouTube Video

After losing a final legal appeal, the president of **Google**'s Brazilian operations, Fabio José Silva Coelho, agreed to take down a political YouTube video that was ruled slanderous, BBC News reported. Authorities briefly detained Coelho over the company's refusal to remove the controversial video, which a judge had ruled violated election laws. Coelho argued that the company was not liable for the contents of the video, but lost his appeal. The decision shows "just what a chilling effect these episodes can have on free speech," he said.

Panama's Congress Approves Intellectual Property Law

Panama's Congress on Wednesday passed an intellectual-property law that would allow fines of as much as $100,000 for copyright infringements without a trial, the Associated Press reported. The legislation, which must be signed by the president to take effect, is intended to bring the country in compliance with the U.S.-Panama FTA that was approved last year.

Argentina Faces 'Red Card' Over Inflation Data: IMF Chief

Argentina faces sanctions from the International Monetary Fund if it fails to produce reliable data on inflation and growth, IMF chief Christine Lagarde said Monday, BBC News reported. The IMF last week gave Argentina a Dec. 17 deadline to address the concerns. "If no progress has been made, then the red card will be out," said Lagarde. Earlier, Argentine President Christina Fernández de Kirchner, said, "The rich countries don't want partners or friends; they just want employees and subordinates."

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Featured Q&A

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energy companies on a large scale anytime soon. However, it has reacted flexibly to face energy and infrastructure challenges. There is a series of precedents that may serve as models when it comes to fixing the grid. A Panama-based company is the sole owner of a small power plant on the Isle of Youth, which had faced extreme power shortages. Genpower Cuba built a $15 million diesel power plant and has been operating it for more than a decade. In the water sector, the government set a bigger precedent: in 1999, it picked publicly traded Aguas de Barcelona as a minority partner in a joint venture to rebuild and operate Havana's decaying water system. European and Canadian power companies, however, are facing an uphill struggle since Cuba prefers cooperation with companies from nations with close governmental ties. Brazilian and Russian companies have already expressed their interest in assisting Cuban efforts to refurbish the grid. Using unorthodox methods, Cuba was able to fix a billion-dollar gap in power generation five years ago, at a fraction of the cost of building new thermoelectric plants. In comparison, fixing the grid is less costly. Expect unusual approaches, with funding from Brazil, Russia and maybe China. How lasting these solutions will be remains to be seen."

Kirby Jones, president of Alamar Associates in Bethesda, Md.: "Any and every country depends on its infrastructure to advance economically and any failure is always detrimental in both the short and long run. This is certainly true in the United States, where bridges, roads and power grids are in desperate need of modernization and, if not updated, will hold back our own development. So it is also true in Cuba. Without a modernization, Cuba's economic future will not proceed as fast as it could. Mismanagement can be cited as a partial reason, but more so is the lack of the financial resources to build the needed infrastructure and also—for sure—the U.S. embargo. That embargo is not mainly about travel and tourism which gets most of the attention; it is far more insidious. Look at the hoops that Cuba and its foreign partners had to go through to obtain an oil rig—all because of the international reach of the embargo and willingness of companies to adhere to the 10 percent rule. Foreign banks and financial institutions continue to be fined by the United States if they do business with Cuba, thus depriving Cuba from access to financing for its projects. All of this, of course, makes it so much more difficult for Cuba. The embargo by the United States is not entirely to blame, but neither can it be ignored."

Stephen Wilkinson, chairman of the International Institute for the Study of Cuba: "It is not certain what exactly caused the blackout in Cuba, but the authorities reported that it was breakage in a high tension cable along the main axis route of the grid. Power was restored promptly and there has been no repeat. While Cuba lacks investment in its infrastructure, there is no reason to read into this event that the electrical grid is falling apart. On the contrary, it has been subject to considerable renewal in recent years and is in better shape than it was in the 1990s and the first years of this century. The energy sector is open to foreign investment and would be attractive to investors were it not for the punitive effect of U.S. sanctions. Failure to find oil does not mean there is none. We can expect the oil sector to continue to develop."

> "There is no reason to read into this event that the electrical grid is falling apart."
>
> *— Stephen Wilkinson*

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