INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR ▸ ENERGY

FEATURED Q&A

Is Ecuador's Oil Sector in Good Shape as Pástor Departs?

Q Wilson Pástor, Ecuador's minister for non-renewable resources, plans to step down this month after three years in the position, local daily *El Comercio* reported April 24. Pástor oversaw the country's oil and gas sector under leftist President Rafael Correa at a time when the government established more control of the industry, embraced unprecedented large-scale financing from China and engaged in costly legal battles with a number of international energy companies. What are Pástor's biggest accomplishments and shortcomings as minister? What condition is Ecuador's oil sector in today? What challenges and priorities will his successor at the ministry face?

A Ramiro Crespo, president of Analytica Securities in Quito: "In his first three years in office, President Rafael Correa went through a left-wing environmentalist, a lawyer, an engineer and a mathematician before finally settling on career oilman Wilson Pástor in April 2010. Pástor managed the renegotiation of oil contracts that Correa had demanded since taking office, but which the ministers he first put in charge were unable to manage. Most companies other than oil major Petrobras stayed on, helping to end the fall in output that had left Ecuador producing just 485,000 barrels of crude a day, down from around 535,000 before Correa took office. His long stay in office reveals how valuable Pástor was, with oil production seeing a relevant recovery to 525,000 barrels at present. Still, aside from that success, Pástor failed to put the industry on the footing it needs to allow it to recover Ecuador's fast declining reserves. Companies have failed to show more than tepid interest in the tender of oil blocks offered in the Amazon southeast, which indigenous organizations with some reason vehemently oppose. Pástor's designated successor, Pedro Merizalde, will try to

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Pemex CEO Says Company Has Halted Production Declines

The CEO of Mexican state oil company Pemex said Wednesday that crude oil production declines have been halted and the company is replacing reserves by 100 percent. While new deposits have been relatively easy to find and exploit, Emilio Lozoya Austin warned that "easy oil is over in the world."

Photo: Pemex.

Inside This Issue

ENERGY SECTOR BRIEFS

Venezuela Allowing Guatemala, Honduras to Join Petrocaribe

Venezuelan President Nicolás Maduro announced Sunday that Guatemala and Honduras have been invited to join the Petrocaribe program, in which Venezuela sells oil and natural gas to other countries on preferential terms, the Associated Press reported. Under the program, members must pay up front for 60 percent of their oil purchases. The rest is financed at 1 percent interest over the course of 25 years. Venezuela's state oil company, **PDVSA**, saw its accounts receivable soar 32 percent last year to $41.7 billion, *El Universal* reported Monday. Most of the debts were tied to the state, which has been using oil in deals with foreign governments.

CNPC in Talks to Acquire Barra Energia Petróleo e Gás for $2 Bn

China's top oil producer, **China National Petroleum Corp.**, is in talks to acquire Brazilian startup **Barra Energia Petróleo e Gás** for approximately $2 billion, Bloomberg News reported, citing people familiar with the matter. The two sides could reach a deal as early as this month, the sources told Bloomberg.

Pemex CEO Says Company Has Halted Production Declines

The CEO of Mexico's **Pemex** said Wednesday that the state oil company has arrested its crude oil production declines and is replacing reserves by 100 percent this year. In a Web site press release, company CEO Emilio Lozoya Austin noted that Pemex's costs in exploration and production are competitive, partly because in recent years it has exploited deposits that were relatively easy to find and exploit. However, he warned that "the easy oil is over in the world."

Oil & Gas News

Brazilian Oil Reserves to Double by 2020: Petrobras CEO

The oil reserves of Brazil's state oil company, **Petrobras**, will double to 31.5 billion barrels of oil equivalent by 2020 despite the country's increasing demand for gas, which is growing much faster than the world average, CEO Maria das Graças Silva Foster said at the Offshore Technology Conference in Houston, the company said Tuesday. Talking about the role of Petrobras in the future of energy in Brazil, Foster cited increasing pre-salt layer production as the cause of the growth, saying, "oil production will grow faster than refining capacity and product demand," Dow Jones reported. The company's daily production will reach 5.7 million barrels of oil equivalent by 2020, more than doubling the current daily output of 2.2 million barrels, Petrobras announced. Foster also highlighted the importance of the company's investments, noting "We have made 53 discoveries in Brazil during the last 14 months. In the pre-salt alone there were 15 discoveries." In related news, the company said in a securities filing Tuesday that it had found oil 235 kilometers off the coast of Rio de Janeiro state in a subsalt area of the Santos Basin near the Iara field, which contains an estimated 4 billion barrels of crude and natural gas equivalent, Reuters reported. The average pre-salt production in April was 294,000 barrels per day, Petrobras said Wednesday.

Sempra Energy Sees Lower Earnings From Mexico, South America Units

San Diego-based **Sempra Energy** last week reported first-quarter earnings of $178 million, a decline from a year earlier with weaker results across its Latin America units. In Mexico, Sempra's earnings fell in the first quarter of 2013 to $31 million, a $2 million decline from last year's first quarter. Also last quarter, Sempra Mexico completed separate debt and equity offerings, raising nearly $1 billion of external capital. The initial public offering, which it described as the first for an energy company in Mexico, sold nearly 19 percent of the equity in the company. The Mexican operating company was renamed "IEnova." In its South America utilities operations, Sempra recorded earnings of $37 million in the first quarter this year, compared with $40 million in the first quarter 2012. The decrease in earnings was due primarily to an impairment charge on its investment in Argentine utilities, which was partially offset by higher earnings in Chilean and Peruvian operations, the company said.

Gas Natural Posts Higher Earnings on Strong Latin America Results

Spain's **Gas Natural** said Tuesday that positive results in its Latin America operations helped push its first-quarter earnings higher. The company's Latin American EBITDA, or earnings before interest, taxes, depreciation and amortization, for gas distribution in the region reached 172 million euros ($225 million), an increase of 17.8 percent compared to the same period of 2012. The EBITDA for Brazil and Colombia together made up 80 percent of the total. Net revenue rose by 24.3 percent to 824 million euros, with a sales volume 20.2 percent higher than the same period last year. The company's gas distribution network in Latin America expanded by 2.5 percent in the first three months of the year and reached 67,702 kilometers. In its electricity business in Latin America, mostly made up of generation assets in Mexico, Puerto Rico, Costa Rica, Panama and the Dominican Republic, EBITDA totaled 70 million euros, 22.8 percent higher than the first quarter of 2012. The results reported Tuesday were better than market analysts expected, Bloomberg News reported.

Power Sector News

Panama Orders Electricity Rationing as Drought Cuts Power Generation

In an attempt to conserve energy, the Panamanian government has ordered high schools and universities shut down for three days, Agence France-Presse reported Wednesday. Government offices have also been ordered to reduce their hours and restrictions have been set on the use of air conditioning in businesses and the operating hours of bars, nightclubs, cinemas and supermarkets, according to BBC News. The power shortage is just one of many effects of a drought which has been declared in a third of the country and is also affecting ranchers and farmers, AFP reported. Panama, Latin America's fastest growing economy in 2012, generates more than 50 percent of its electricity from hydroelectric power and the drought has severely reduced power generation. The government hopes that these restrictions will prevent further power shortages while the country waits for rain. Minister of the Presidency Roberto Henríquez said Wednesday "if we stick to this we can certainly prevent further cuts which could seriously affect the country's economy," reported BBC. Officials will reassess the restrictions Sunday to determine if they should be lifted and if schools should be re-opened next week.

Henríquez

File Photo: La Prensa.

General Electric Books Deal for $900 Million With Brazil's Bioenergy

General Electric has struck a deal to sell wind turbines worth nearly $900 million to Brazil's **Bioenergy Geradora de Energia**, Bloomberg News reported Monday. GE will deliver 207 turbines to 13 of Bioenergy's projects in the northeastern state of Maranhão and will furnish another 170 turbines for future projects in the area, according to the report. Bioenergy has agreed to sell the power from the wind farms in a government-organized auction in December at 87.77 reais a megawatt-hour, among the world's lowest price for wind power. In February, France's **Alstom** beat out competitor GE in a wind turbine deal in Brazil valued at $1.35 billion with **Renova Energy**. "The deal put on the table by Alstom was better" than Renova's contract with GE, Renova Energia CFO Pedro Pileggi told Bloomberg News at the time.

Ventyx Inks Deals for $6.5 Million in Ecuador Grid Software Upgrades

Atlanta-based **Ventyx** on Monday announced that it has signed deals valued at $6.5 million with Ecuador's **Transelectric**, the country's transmission grid operator. A unit of Switzerland's **ABB**, Ventyx will install and upgrade control center software that will improve energy management and monitoring for the country's 15 million citizens. The project also involves capacity to expand Ecuador's grid under the Program for Regional Power Integration that covers interconnections between Ecuador, Peru and Colombia. Ecuador has made smart meter technology a priority goal in recent years. Last March, the Energy Ministry rolled out its "smart grid roadmap," a three-phase plan to modernize the country's grid with advanced technologies and information and communication technologies by 2030, Metering.com reported.

Brazilian Energy Ministry Favoring Coal, Gas in New Contract Rules

Brazil's Energy Ministry has revised rules for power auctions in an effort to diversify its dominant hydropower capacity and accelerate development of natural gas and coal-fired thermal power plants, Bloomberg News reported Wednesday. The government fears it has over-invested in weather-susceptible renewable energies like hydro, wind and solar, leaving the economy vulnerable as demand is expected to rise sharply in the years ahead. The new rules for contracts could boost energy made from fossil fuels by 50 percent this year to 1,500 megawatts, according to the report. "Brazil is proud of having a renewable-energy focus," Deputy Energy Minister Marcio Zimmermann said in an interview with Bloomberg News in Brasília. "We always want to do hydro plants, but it isn't always possible, so we have to use thermal plants to assure power supply." Under the new rules, wind farms won't bid for the same contracts as gas and coal projects. Coal and natural gas producers are expected to benefit from the changes. In the near term, the policies may reduce the amount of wind capacity sold this year by two thirds from 2011, to less than 1,000 megawatts, officials said. Brazil has among the lowest costs of wind energy in the world. [Editor's note: See Q&A on Brazil's electricity sector in the Jan. 21-25 issue of the *Energy Advisor*.]

The policies may reduce the amount of wind capacity sold this year by two thirds from 2011.

Biofuels News

Brazilian Firm Receives $150 Million for Second-Generation Ethanol Plant

A project using crop waste to make ethanol has received a multi-million dollar loan from Brazilian national development bank BNDES, *Biofuels International* reported Thursday. The $150 million loan will be used by a division of privately held São Paulo-based **GranBio Investimentos** to construct a facility in São Miguel dos Campos in Alagoas state that will be capable of producing 82 million liters of fuel a year from sugarcane residuals. The company believes its technology can get 45 percent more fuel from cane and stems then conventional methods, according to the report. Details on construction dates and contractors have not been released, according to the report. A British company said last month it is investing $30 million in a second-generation ethanol plant in Brazil that will also use crop waste, Dow Jones reported. But the future of second-generation biofuels is far from clear. Lawmakers in the United States have submitted legislation that would erase Environmental Protection Agency distinctions for corn ethanol, cellulosic ethanol, biodiesel and others, suggesting that next-generation biofuels are not commercially viable or may never exist. [Editor's note: See related Q&A, "Are Second-Generation Biofuels Doomed or Primed to Boom?" in the April 29-May 3 issue of the *Energy Advisor*.]

Political News

Maduro Continues First Official Trip Abroad With Visit to Argentina

Venezuelan President Nicolás Maduro continued his first official tour abroad this week, landing in Buenos Aires Wednesday after visiting Uruguay on Tuesday. Maduro was greeted warmly by Argentine President Cristina Fernández de Kirchner at the airport, the Casa Rosada said in a Web site press release. Speaking to reporters, Maduro invoked the names of his predecessor, deceased President Hugo Chávez, and Argentina's Juan Perón when he arrived, saying "I am the second Peronist president of Venezuela, the first was Chávez, who planted a revolution of love that is sweeping Latin America," according to a Casa Rosada statement. Fernández and Maduro signed bilateral cooperation accords covering industrial parks, auto manufacturing, technology transfer and agriculture. In Montevideo on Tuesday, Maduro promised Uruguayan President José Mujica a "permanent" supply of petroleum. The presidents signed agreements on food exports and Uruguayan transportation services to Venezuela, *The Christian Science Monitor* reported. He is scheduled to meet Brazil's President Dilma Rousseff today. However, Maduro faces a highly polarized and volatile situation at home, as the opposition disputes April 14 election results that put Maduro into office by a thin margin. The United States and the European Union have not recognized the results officially. All three countries on the visit this week have recognized Maduro's government.

Maduro promised Uruguayan President José Mujica a "permanent" supply of petroleum.

Ecuador, Peru Reassign Ambassadors After Supermarket Scuffle

Ecuador and Peru on Monday removed their ambassadors to each other's countries and said they would reassign them following an incident in which Ecuador's ambassador to Lima was involved in an altercation with two women in a supermarket, BBC News reported. Quito's envoy, Rodrigo Riofrío, was accused of hitting the woman and her daughter with a magazine on April 21 after the daughter slapped the ambassador in the face. The woman said her daughter slapped Riofrío after he became angered when they were served first. Ecuadorean President Rafael Correa backed his envoy, saying Riofrío "had been the one to be hit first." Peruvian First Lady Nadine Heredia entered the debate, saying "aggression against women should not be tolerated." The countries temporarily recalled their ambassadors last week, but their foreign ministries said Monday that they would be permanently reassigned in an effort to protect "excellent bilateral relations." Ecuador said that Riofrío would serve as ambassador to another country, while Peru said its envoy, Javier León Olavarría, would "soon assume a high post" elsewhere.

In Profile

Cecilia Nahón, Argentina's Ambassador to the United States

Argentina's new ambassador to the United States, Cecilia Nahón, last month presented her credentials to President Barack Obama. She replaces Jorge Argüello, who has been assigned to Portugal.

File Photo: White House.

Background: Nahón, 39, is an economist who most recently served as Argentina's secretary for international economic relations at the Foreign Ministry. She has worked since 2008 in the government, primarily on investment and trade development, playing an "active part" in defending Argentina's protectionist trade policies in the World Trade Organization. She has also been involved with contentious trade talks with neighboring Brazil, according to media reports.

Nahón is a close personal friend of Deputy Economy Minister Axel Kicillof, who is considered an influential rising star in the administration of Cristina Fernández de Kirchner and a vocal advocate of heterodox economic policies.

Nahón is married to Sergio García Gómez, an executive at **Aerolineas Argentinas**, with whom she has two children.

She holds a B.A. in economics from the University of Buenos Aires and a master's degree in development from the London School of Economics. She is a PhD candidate (with her thesis submitted) at the Latin American Faculty of Social Sciences, known as FLACSO. Nahón was a founding member of the Argentine Center for Development Studies (CENDA).

Of note: In Washington, Nahón inherits a set of thorny issues, such as the International Monetary Fund's stance questioning the country's methods for calculating inflation, ongoing court cases with so-called "vulture" bondholders in New York, and problems with U.S. companies trying to navigate Argentina's increasingly complex customs rules and regulations. Last week, the U.S. Trade Representative named Argentina, along with Chile and Venezuela, on his blacklist of countries violating intellectual property rights.

In her confirmation hearings, Nahón said she would focus on improving economic relations in Washington. She has described Argentina as an attractive market for U.S. businesses and investment with over 500 American corporations doing business there, but has noted publicly that "more balanced bilateral trade would be an encouraging signal," according to Mercopress.

Sources: Clarín, La Nación, *Mercopress, Argentine Foreign Ministry.*

Economic News

Brazilian Wins Election to Lead World Trade Organization

Brazil's Roberto Carvalho de Azevêdo beat out rival Mexican candidate Herminio Blanco on Tuesday to take over the World Trade Organization, Brazil's Foreign Ministry said Tuesday. If confirmed at a May 15 meeting, Azevêdo, 55, would take office on Aug. 31, replacing France's Pascal Lamy, Agência Brasil reported. Since 2008, Azevêdo has been the permanent representative of Brazil in the 159-member WTO. Blanco, 62, is a former Mexican trade minister who led the nation's negotiations for the North American Free Trade Agreement with the United States and Canada. The election, which took three rounds over six months and attracted nine candidates, brings a Latin American to the top global trade post for the first time in the body's nearly 20-year existence. Azevêdo had the support of the BRICS countries (Brazil, Russia, India, China and South Africa), Portuguese-speaking countries and several nations in Latin America, Asia and Africa. Blanco had stronger support in Europe, according to media reports. The decision comes at a time when Mexico's economic fortunes have been rising and Brazil has been struggling. "If this election had been held two years ago, Brazil would have won pretty easily," said Peter Hakim, president emeritus of the Inter-American Dialogue in Washington told *The Wall Street Journal* Tuesday before the result was made public. Since then, however, Brazil's government has moved to protect the country's manufacturers and to steady Brazil's balance of payments.

Azevêdo

File Photo: Associated Press.

Argentine Black Market Peso Plunges to Record Low Against Dollar

Argentina's peso fell to a record low on the black market against the U.S. dollar on Tuesday, with the currency trading above 10 pesos to the dollar for the first time, local newspaper *El Cronista* reported. The plunge means that Argentines are now paying a 93 percent premium above the government's official exchange rate to acquire dollars that are unavailable through legal means. The black market for greenbacks affects prices in sectors of the economy including real estate, where transactions have been carried out in the U.S. currency for decades, *The Wall Street Journal* reported. On the regulated currency market, the dollar sold for 5.209 pesos, but the government's rationing of dollars means that dollars are unavailable for most Argentines through legal means. Fears of a devaluation are fanning more demand for dollars in the South American country, even as President Cristina Fernández de Kirchner has pledged not to devalue the peso. "As long as I'm president, those who want to make money through devaluations, which other people have to pay for, will have to keep waiting for another government," she said Monday. Fernández's government on Tuesday announced a proposal for an amnesty, saying it would allow Argentines to deposit undeclared foreign currency at the central bank without paying criminal penalties on money that many have hidden, the Associated Press reported. In exchange, the central bank will issue certificates of deposit, which will pay 4 percent interest through 2017, officials said.

Consumer Confidence Picks Up in Mexico

Mexico's consumer confidence index rose 1.42 percent in April, state statistics agency INEGI announced Monday. The CCI, which INEGI monitors jointly with Mexico's central bank, reversed a trend of three consecutive monthly declines in April, **Goldman Sachs** analyst Alberto Ramos said in a research note to clients. The new data is "consistent with a business cycle that continues to expand but at a moderate pace," Ramos said. Despite the gains, consumer confidence "still has significant room to improve," Ramos added, noting it is about 10 percent below the average level seen during 2006, before the global economic downturn.

POLITICAL & ECONOMIC BRIEFS

Dominican Republic Planning to Free up $487 Mn to Boost Growth

The Dominican Republic's central bank said Wednesday that it would lower bank reserve requirements and seek to expand loans to consumers and businesses, freeing up 20 billion pesos ($487 million) to boost economic growth, Bloomberg News reported. Increased credit will also be used for more affordable housing, the central bank added. The Caribbean country's growth is expected to slow to about 3 percent this year, down from 7 percent annually on average since 2004.

Ecuador's Growth Expected to Slow to 4%: Central Bank Chief

Ecuador's central bank chief, Diego Martínez, announced Wednesday that economic growth in the country will slow to 4 percent for the year, Reuters reported. The prediction comes following trouble in Ecuador's largest refinery and weak overseas demand for oil, though Martínez expects consumer demand to drive growth this year. Martínez also predicted that the country's inflation rate will be 4.4 percent this year, up slightly from last year.

Colombia Requests New Credit Line From IMF

Colombia has requested a new credit line from the International Monetary Fund to replace a previous $6 billion program that it had with the lender, the IMF announced Monday, Reuters reported. The new flexible credit line will "provide Colombia with useful protection against external tail risks," Nemat Shafik, a deputy managing director of the IMF, said in a statement. Colombia has never used its credit line, which is intended to be a safety net for its economy against external shocks.

Featured Q&A

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take the tender to a successful conclusion and will have to help Correa face reality: PetroEcuador has to follow the path of Petrobras and Ecopetrol, listing itself in the international securities exchanges and expanding abroad. He will also seek to complete the major new refinery project that he led before taking office, which Pástor opposed. Despite breaking ground on the plant last year, he has so far been unable to raise the project's necessary $12 billion in funding."

A Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorean minister of finance, member of Congress, and central bank president: "I met Wilson Pástor some 25 years ago when I was in government and he was trying to find a way into the public sector. He struck me as a sensible person, though weighed down by the illusion that the government knows better than the market, and that control over 'strategic' production is paramount. In all these years I have come to conclude that one of the fundamental differences between doing business from the left and from the enterprise perspective is that the former is keen on hands-on control no matter what the costs or the ultimate size of the pie, whereas the latter prefers to look at bottom lines, cost efficiency of operations and economic results. Today, Mr. Pástor continues in government, whereas I did my last tour of duty some 15 years ago. He has carried out his duties as minister in a government bent on control, and so far, what he has to show for it is stagnant production levels, an ITT initiative that is going nowhere, a refinery project that may materialize, if it does, after the socialist government has run its course, an increasingly distorted domestic price structure for fuels and a virtual shutdown in foreign investment in all sectors of the Ecuadorean economy. Correa and his cohorts have been lucky to live through the expansion phase of the oil price cycle which, as it winds down, will reveal the true, deleterious effects of a misguided oil policy lacking in vision and guidance for the future."

A José Valera, partner at MayerBrown LLP in Houston: "Mr. Pástor concluded the conversion of the country's oil contracts into service agreements and presided over the merger of Petroecuador and Petroamazonas under a single holding company. His biggest shortcoming, of course, is that the country's production remains stagnant. In a country like Ecuador, however, energy policy is made almost exclusively by the president himself. The minister for nonrenewable resources carries out presidential directives and has little role in policy. This dynamic is not going to change under Pedro Merizalde, Mr. Pástor's successor. Ecuador's hydrocarbons sector today is in serious condition. Due to stagnant production, the increasing domestic demand means that there are ever smaller volumes available for export. Production has been in a range of 480,000-520,000 barrels per day for years. Oil is by far Ecuador's biggest export, and the treasury depends heavily on these export revenues. The biggest challenge is increasing the production of oil and gas. Ecuador takes pride in having one of the highest government takes in the world under its contracts with private-sector companies. This is only a short-term gain because the current model of service contacts does not reward the risk inherent in carrying our exploration activities. Most of the country's production is from fields discovered years ago, and as these fields are depleted there are no new replacement reserves to come online as a result of exploration that should have taken place at the same time. Ecuador is unlikely to overcome its biggest challenge without a fundamental change in the policy related to the terms of engagement with the private-sector. This will have to come from the top, but there is little chance of that happening since the president just won a third term promising more of the same."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org*

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