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FEATURED Q&A

How Successful Was Brazil's Auction of the Libra Field?

Q On Oct. 21, Brazil held the auction of its pre-salt Libra field, which is estimated to hold some 8-12 billion barrels of oil or oil equivalent. It was the first auction held under the nation's new production-sharing contract model, which requires Petrobras to hold at least 30 percent of every project and control operations. Only 11 companies of an expected 40 registered for the auction, most of which were national oil companies. What was behind the smaller-than-expected turnout? How attractive were the contract terms to bidders? Was the auction a success, why or why not, and what is the outlook for development of the field?

A Christopher Garman, director of emerging market strategy & Latin America at the Eurasia Group: "Government officials are celebrating the results of the first auction held under the government's production sharing agreement contract model for the pre-salt. Prior to the auction, there was a lot of speculation in the press that international oil companies (IOCs) would fail to show up entirely, with only Chinese state-owned enterprises (NOCs) potentially showing up to partner with Petrobras. With both Shell and Total opting to assume a combined 40 percent stake in the project, Rousseff and her advisors were able to claim that the new model was able to attract international heavy hitters. In addition, the lack of competition also allowed Petrobras to dodge a bullet. The new E&P framework obligates Petrobras to be lead operator for whichever consortium wins, with a minimum 30 percent stake. That means Petrobras ran a material risk of Chinese NOCs bidding aggressively in a competitive auction, thus forcing Petrobras to accept a very high share of profit oil, which would hurt the company financially. In other words, the government was quite happy to see little competition but with IOC participation. The real question to ask, however, is what comes next. Petrobras

Continued on page 3

Colombia, Rebels Agree on Second Point of Peace Agenda

Colombia's government and the FARC announced Wednesday that they had reached an agreement on the rebels' future political participation. The government's lead negotiator, Humberto de la Calle, expressed optimism about the future of the talks. See story on page 2.

Photo: Colombian Government.

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NEWS BRIEFS

Ortega Seeking to Remove Ban on Consecutive Presidential Terms

Nicaraguan President Daniel Ortega has proposed legislation that critics say would effectively eliminate presidential term limits, the Associated Press reported. Lawmakers on Wednesday began studying the proposal, which would delete an article of Nicaragua's constitution that is intended to bar consecutive presidential terms. Despite the ban, a Nicaraguan Supreme Court ruling in 2010 allowed Ortega to run for a second consecutive term in 2011.

Maduro Announces Tightening of Foreign Exchange in Venezuela

Venezuelan President Nicolás Maduro said Wednesday the country will tighten control over the foreign exchange system by creating a central agency to administer dollars in an effort to ensure that they are used to purchase imports and not sold on black market, the Associated Press reported. He also asked the military to help price inspectors look for price gouging and hoarding. On the black market this week, Venezuela's currency fell to a record low of 58 bolívars per dollar, more than nine times the official rate.

Mexican High Court Overturns Ruling That Freed Ex-Cartel Head

Mexico's Supreme Court on Wednesday overturned an appeals court decision made in August that allowed a former drug cartel head to go free, BBC News reported. Rafael Caro Quintero was once one of the three leaders of the powerful Guadalajara Cartel. He was captured and convicted of the 1985 murder of a DEA agent. In August, he was released after an appeals court ruled that he should have been tried in state, not federal court. His whereabouts are unknown.

Political News

Colombian Gov't, Rebels Agree on Second Point of Peace Agenda

Colombia's government and the Revolutionary Armed Forces of Colombia, or FARC, rebels on Wednesday announced that they had reached an agreement on the second main point of their agenda for the peace talks that have been going on for a year. The second point of the agenda, dealing with the rebels' future participation in politics, was seen as a needed boost for the talks that began in November 2012 in Havana. The talks appeared close to stalling recently, and until Wednesday, the two sides had agreed only on land reform, the first point of their six-point agenda. Former Colombian Vice President Humberto de la Calle, the government's lead negotiator in the talks, expressed optimism Wednesday after the two sides announced they had reached agreement on the second point. "This new democratic opening will clear the way for peace to definitely take root once the conflict ends," he said, Agence France-Presse reported. The lead negotiator for the FARC, Iván Márquez, also was optimistic about the future of the talks. "The important aspects that we have agreed on so far in terms of political participation give Colombians the possibility of beginning to open the doors to a true democracy," said Márquez, AFP reported. "Nevertheless, there is a long way to go." In a joint statement, which was read by Norwegian diplomat Dag Mylander, the two sides said the agreement on the political participation of the rebels "includes guarantees for the political opposition, measures to promote citizen participation and it contemplates revising the Colombian electoral system after a final peace agreement is signed." The government and the FARC still have four points on their agenda for the talks—drug trafficking, compensation for victims, disarmament and implementation of the peace accords. Before Wednesday's agreement was announced, Colombian President Juan Manuel Santos said Colombia would soon be "a normal country—a country at peace."

Company News

Pacific Rubiales Signs LNG Sales Agreement with Russia's Gazprom

Toronto-based **Pacific Rubiales** announced on Tuesday that it has signed a preliminary liquefied natural gas (LNG) sales agreement with a subsidiary of Russia's **Gazprom**. The companies will finalize the agreement over the next nine months, but Pacific Rubiales said it would cover the sale of approximately 500,000 tons per year of LNG to **Gazprom Marketing & Trading**, beginning in the second quarter of 2015. Pacific Rubiales will get a LNG floating storage unit, currently under construction by Shanghai-based **Wison (Nantong) Heavy Industry Co.**, which will be supplied by a pipeline from its La Creciente field in northern Colombia. Pacific Rubiales' chief executive officer, Ronald Pantin, said, "The execution of this agreement is very positive for us as it underpins the commercial start-up of the world's first operational floating LNG production unit at a pricing formula linked to international crude oil markets."

Pantin

File Photo: Pacific Rubiales.

Rivals Attempting to Swipe Market Share From Brazil's Cielo: CEO

Brazil-based **Cielo**, the country's largest payment-card processor, is facing tougher competition as rivals are increasing their efforts to gain market share, CEO Rômulo Dias said Tuesday, Reuters reported. The fight for new clients will intensify by next year, Dias told analysts on a conference call to discuss third-quarter earnings. The merchant-acquiring units of **Itaú Unibanco Holding** and **Banco Santander Brasil** are becoming more aggressive as a result of efforts by their parent companies to encourage their clients to increase spending on financial services, Dias added. Cielo reported net income of 691.2 million reais ($309 million) in the third quarter.

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Featured Q&A

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is overburdened financially and operationally, which means the company is not well positioned to assume the operational responsibility of developing new fields in the pre-salt. If the government opts to keep the current framework, it is a recipe to not conduct additional bid rounds in the pre-salt for at least two to three years. At heart is whether the government wants a slow or rapid pace of production in the pre-salt. The current model is a recipe to develop it all very slowly. Opening up the sector to IOCs is synonymous with more investments, more production and more revenue earlier rather than later. To be sure, that may very well be one of the most important decisions for the next administration."

Georges Landau, head of Prismax Consultoria in São Paulo: "The tender for the giant Libra petroleum pre-salt field lasted only 30 minutes, and extraordinary security precautions were taken. The outcome was deemed positive for the government, but was criticized because only one consortium bid for the field and bid the minimum allowed by the tender rules, namely 41.65 percent in profit oil. Eleven oil companies registered, while 40 had been expected. The partners in the winning consortium were: Petrobras, the operator, with 40 percent; Shell and Total, with 20 percent each; and two Chinese state companies, CNOOC (China National Offshore Oil Corporation) and CNPC (China National Petroleum Corporation); with 10 percent each. The consortium subscribed to the 15 billion real signature bonus, and the contract will be signed in Brasília within 30 days. While none of the U.S. majors bid in this auction, the government feels vindicated in that two European oil companies, Anglo-Dutch Shell and France's Total, did participate, as did two Chinese state enterprises. There is already talk of modifying the model for future pre-salt auctions so as to allow for greater private sector participation. Petrobras' share in fees will be 6 billion reais at a low point in the company's cash flow, which however will be substantially improved following the government's imminent readjustment of fuel prices. According to the National Petroleum Agency, the Libra field will yield 1 trillion reais over 35 years. The aggregate total of royalties and the Social Fund is estimated to amount to 640 billion reais over this period and will be earmarked for education and health. The benefits to Brazilian industry at-large are estimated at 400 billion reais per year. And Petrobras has already developed unrivaled deep-sea technology."

Chirag Sabunani, Latin America Upstream Analyst at Wood Mackenzie: "A consortium of Petrobras, Total, Shell, CNOOC and CNPC placed the only bid in a round that proved to be anything but competitive. A number of factors kept companies away. These include the high signature bonus, the risk of project delays and having Petrobras as the mandatory operator, considering that the company is financially and operationally over-stretched. In addition, reserves uncertainty (just one well has been drilled at Libra) and the potential for political interference through Pré-Sal Petróleo SA may have influenced companies' decisions. Despite the lack of interest, the government can take some satisfaction that it has attracted a world-class group of companies to develop one of the largest deepwater oil fields ever discovered. This project will generate billions for state coffers, plus the government will shortly receive a $7 billion signature bonus. This is cash that it can immediately invest in public health and education projects—it will be many years before the field starts to generate production revenue (excluding extended well tests). We calculate base-case NPV10 of $16 billion, equivalent to a full cycle internal rate of return of 14 percent, under our long-term oil price of $85 per barrel in 2013 terms. This is well above what could be achieved on the upstream M&A market, and only a handful of explorers succeed in generating such returns. Indeed, the companies that elected not to bid may now view Libra as a missed opportunity."

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Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President

Peter Hakim, President Emeritus

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

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Margaret Myers, Director, China and Latin America Program

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Jeffrey Puryear, Vice President, Social Policy

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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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