INTER-AMERICAN DIALOGUE'S
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FEATURED Q&A

Can Energy Create Growth and Prosperity in the Americas?

Q In a Nov. 18 speech on U.S.-Latin American relations, U.S. Secretary of State John Kerry gave an optimistic appraisal of the potential of the hemispheric energy market to create growth and prosperity in the region, comparing the hemispheric energy landscape today to the nascent U.S. technology industry in the 1990s. Is the comparison between the technology and energy industries a good one? How does energy differ from technology and other 'knowledge economy' drivers? What needs to happen in order for energy to create growth and prosperity in the Americas? Does the energy market have the potential to create that kind of growth in the region?

A Isabella Alcañiz, assistant professor in the Department of Government and Politics at the University of Maryland: "Secretary Kerry's comparison of the energy and technology economies is a valid one, albeit with major caveats. Like the technology sector, energy contributes to the overall growth of the economy as well as serving as a key input of all the goods and services produced in a country. And to a certain point, energy-driven economies attract skilled workers and can have a positive impact on employment levels. But that is where the similarities end. Knowledge economies are skills-intensive. They invest in expert labor and consequently they are characterized by higher levels of human capital, which in turn increases the prosperity and levels of development of nations. Furthermore, trends in employment and wages overwhelmingly favor STEM and high-tech workers over all other labor. Energy needs skilled labor, but it is primarily a capital-intensive sector. Thus, its spillover effect on economic development is less direct. On the other hand, energy can be a key driver of growth. But if energy is the primary engine of an economy, the resource

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Mexican Lawmakers to Begin Debate on Energy Reform Bill

Mexican legislators will send a major energy reform bill to Senate committees today, beginning debate on one of President Enrique Peña Nieto's top reform priorities. The bill is aimed at increasing investment in the country's energy sector. See story on page 2.

File Photo: Mexican Government.

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ENERGY SECTOR BRIEFS

Repsol and PDVSA to Sign $1.2 Billion Financing Deal Friday

Spain's **Repsol** and Venezuelan state oil company **PDVSA** on Friday will sign a $1.2 billion a financing deal in Caracas to support their Petroquiriquire joint venture in northwestern Venezuela, the country's oil minister said Tuesday, according to *El Universal*. The money will be used to boost output at the project's three fields by 70,000 barrels per day, Reuters reported.

KOSPO and Samsung Win Contract to Develop Chilean Natural Gas Plant

A consortium comprised of **Korean Southern Power Company** and **Samsung C&T** announced Dec. 1 that they won and signed a contract with **BHP Billiton** to develop a $580 million natural gas plant in northern Chile, *BusinessKorea* reported. The 517-megawatt plant will supply 3,400 GWh annually to BHP's nearby operations including Escondida, the world's largest copper mine. Construction on the plant will begin in early 2014 and is expected to be complete in the second half of 2016.

Enel Wins Energy Supply Contracts, Will Build Three New Power Plants

Italian renewable energy company **Enel Green Power** announced Nov. 29 that it has won multi-year contracts in a Chilean public tender to supply energy to distribution companies through 2024. Enel will provide up to 4,159 GWh over the life of the contracts, which begin in December. The energy will come from one of the company's current plants, and Enel will also invest $320 million in two new solar PV plants and one new wind farm that will have a total capacity of 161 MW and feed into Chile's Central Region Transmission Network by the first half of 2015.

Oil & Gas News

Mexican Lawmakers to Begin Debate on Energy Reform Measure

Mexican legislators will send a major energy reform bill to Senate committees today, beginning debate on one of President Enrique Peña Nieto's top reform priorities, Reuters reported Wednesday. On Wednesday morning, the Senate passed an electoral reform that opposition lawmakers set as a precondition for taking up energy reform, removing the last major obstacle in the way of taking up an energy bill. The head of the Senate's energy committee and ruling PRI party member, David Penchyna, said the bill will go to Senate committees on Thursday, but added they will not vote on the bill until Friday at the earliest. The committees will determine a plan for debating the bill. If the committees approve the bill, both the Senate and lower house must approve it. "We are very close to finishing drawing up the bill to be able to present it…not just the changes that will be proposed, but also a presentation of the reasons," Penchyna said Wednesday. The energy overhaul aims to attract more private investment to Mexico's oil and energy sector in an attempt to increase the country's decreasing production. Despite having the third-largest proven oil reserves in Latin America, the country's production has declined by almost a quarter since its peak of 3.4 million barrels per day in 2004. Tens of thousands of opponents of the reform protested last weekend, arguing that it privatizes state resources, BBC News reported. However, the leftist PRD withdrew from the three-party "Pact for Mexico" last week, meaning the ruling PRI will work with the conservative PAN to pass the overhaul, making it likely that the reform will be more extensive and go beyond the production-sharing model proposed in August.

Petrobras Shares Fall After Board Announces Fuel Price Policy

Shares of Brazilian state oil company **Petrobras** fell 9.2 percent Monday, their steepest one-day decline in five years, after the company announced a smaller-than-expected fuel price increase and did not disclose details of how future price adjustments will be determined, Bloomberg News reported. The company's board last Friday approved a new fuel-pricing policy in an attempt to "converge" domestic and international prices, but did not provide details on how the policy will work or how changes in world benchmark fuel prices would cause future adjustments in local prices, Reuters reported. Also last Friday, Petrobas announced that wholesale fuel prices would be increased 4 percent for gasoline and 8 percent for diesel, which took effect over the weekend. "The government decided to split the difference, giving Petrobras some partial relief but not the long-term clarity on pricing that investors want," Pavel Molchanov, an analyst at **Raymond James & Associates**, told Bloomberg. The company imports oil and sells it at a loss domestically in order to fight inflation in Brazil, but doing so has cut into the company's profit and cash flow.

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> — *Pavel Molchanov*

Repsol, YPF Likely to Reach Agreement by Year's End: Pemex

Spain's **Repsol** and Argentine state-owned oil company **YPF** are likely to reach a final deal by year's end on compensation for Argentina's 2012 seizure of Repsol's stake in YPF, Arturo Henríquez, who represents **Pemex**'s 9.4 percent stake in Repsol on the Spanish company's board, said Saturday, according to the *Buenos Aires Herald*. "We trust that Repsol, looking after its own interests and those of its shareholders, will willingly negotiate for the good of everyone and will make the most of this great reconciliation which has taken place," Henríquez said. On Nov. 27, Repsol's board approved a proposed framework for the compensation negotiations, and Argentine officials said talks would begin this week. The deal reportedly offers $5 billion in compensation, half of the $10 billion Repsol had been demanding. YPF is hoping that a resolution to the dispute will allow Argentina to attract more oil investment. The company's CEO, Miguel Galuccio, told Reuters last week that, "Signing a deal between Repsol and the Argentine state will provide the confidence necessary to form new alliances with potential investors and drive non-conventional exploration."

Brazil Awards Only a Third of Blocks on Offer in Auction

Brazil awarded just a third of the 240 natural gas blocks it had on auction in a Nov. 28 offering in Rio de Janeiro, EFE reported. The auction was the country's first aimed at generating investment in non-conventional sources of gas, but received tepid interest, ending in just over three hours after being scheduled to last two days. Most interest came from Brazilian state oil company **Petrobras**, which won 49 of the 72 blocks awarded, according to Brazil's regulatory body, the National Petroleum Agency. Colombia's **Trayectoria Oil & Gas**, with 10 blocks, and Bermuda-based **GeoPark** were also among the winners. Just three major firms, Petrobras, **Royal Dutch Shell** and France's **Total**, were among the 21 companies registered, *The Wall Street Journal* reported. The auction raised 165.9 million reais ($75.4 million), significantly less than the 2.2 billion reais ANP had hoped for, according to EFE. The auction received little interest from bidders in part because the blocks on offer were onshore blocks in remote and little-explored areas. The non-conventional blocks will also have to be developed using fracking, and Brazil lacks complete rules governing that process. Further, most exploration work in the country in recent decades has occurred offshore, so in order to develop onshore blocks, "Brazil is going to have to bring equipment and know-how into the country," said Ricardo Savini, a consultant at **Deloitte Touche Tohmatsu** in Rio de Janeiro, told *The Wall Street Journal*.

Featured Q&A

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curse begins to loom: A country reaping significant profits from its energy exports will disinvest elsewhere in its economy, loose competitiveness and become vulnerable to major losses during bust periods. In fact, most energy-abundant economies have experienced the devastating effects of this phenomenon at some point in time. Countries can reduce this risk (not present in knowledge-economies) by slowing the entry of energy revenues into the economy and avoiding the appreciation of their currency."

A Roger Tissot, member of the *Energy Advisor* board and independent energy economist: "One must be careful with John Kerry's optimism and analogy. It is true that Latin America's energy market (one assumes Kerry is talking about supply and demand) has a huge potential. The region is after all rich in oil and natural gas and is also a hydroelectric powerhouse. From the demand side, thanks to until recently fast economic growth, access to cheap credit and subsidies, the emergence of a new middle class fueled a demand boom for oil products. Latin America's energy potential has always been known, but the problem has been the lack of long-term vision. Political leadership has seen the region's energy potential as a source of rents. When prices are high, countries modify the rules of the game and try to capture more rents. When prices fall, forced by declining investments and production, countries adopt ad hoc policies aimed at attracting more investments. Although one would like to share Kerry's optimism, most of the new investments in

> "The real value of the region's energy potential is not in the size of its reserves, but rather in its ability to transform them into value-added products."
>
> *— Roger Tissot*

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Power Sector News

Venezuela's Maduro Blames Power Outage on Sabotage

Venezuelan President Nicolás Maduro appeared on state TV Tuesday showing a picture of what appeared to be a cut conductor cable, which he claimed proved his allegation that the massive power outage that occurred in Caracas on Monday was the result of sabotage by his opponents, BBC News reported. His opponents have blamed the outages on a lack of investment and poor maintenance of the electrical grid. A massive power outage Monday night cut off electricity to much of Venezuela, just as Maduro was delivering a speech live on state television, Reuters reported. Power was cut off in Caracas and several other cities around the country at about 8 p.m. local time, to the annoyance of residents. Sales advisor Aneudys Acosta, 29, blamed Maduro's government as he walked in the rain after being forced to leave Caracas' underground transportation system. "I live far away and here I am stuck under the rain. Something's going wrong that they're not sorting out. The government needs a Plan B. This is just not normal," he told Reuters. Monday's outage seemed similar to the one Sept. 5 that was the worst power

Maduro

File Photo: Venezuelan Government.

failure in Venezuela's history. In a speech to the nation at about 11 p.m. Monday, after power began to be restored, Maduro told Venezuelans to "Be strong against this electrical war that yesterday's fascists have declared against our people."

IC Power Wins $1 Billion Peru Power Plant Deal

IC Power, a subsidiary of **Israel Corp.**, announced Sunday that it has won a $1 billion, 20-year tender from the Peruvian government to build a power plant that will provide reserves for the national electricity grid, *The Jerusalem Post* reported. IC Power's South American subsidiary, **Inkia Power**, will invest approximately $380 million to build a 590-megawatt dual natural gas turbine and diesel plant in Mollendo in southern Peru by mid-2016. The first stage of the plant will be diesel-powered and will sell energy to the Peruvian government as needed. The country's current consumption is approximately 5,500 megawatts, so the plant will provide backup generation equal to more than 10 percent of Peru's electricity usage. After construction of a natural gas transmission line to carry gas to the southern part of the country is complete, the plant will begin generation from natural gas, increase its capacity and sell to the private sector. The tender forms part of the government's plan to create "an energy node of the south" and encourage development of the southern region of the country. IC Power also announced on Sunday that **Kallpa Generación**, in which it holds a 75 percent stake, will purchase a 193-megawatt natural-gas powered plant in Chilca, Peru for $114 million. IC Power also holds a 21 percent stake in Peru's largest power generator, **Edgel**.

IC Power's South American subsidiary will build a 590-megawatt dual natural gas turbine and diesel plant in southern Peru.

In Focus

Colombia's Development Hinges on Success of Peace Talks: Santos

By Megan Cook

WASHINGTON—A successful peace process is integral to improving prospects for Colombia's development, Colombian President Juan Manuel Santos said Tuesday, after discussing possibilities for U.S.-Colombia collaboration in a post-conflict society with U.S. President Barack Obama.

Santos met with Obama Tuesday at the White House.

Photo: Colombian Government.

In their meeting at the White House, Obama expressed support for Colombia's peace talks, which Santos' government began in November 2012 with the Revolutionary Armed Forces of Colombia, or FARC, rebels in an attempt to bring an end to the 50-year armed conflict. The Colombian president highlighted the progress the Andean nation has made in the last few years, pointing to declining inequality and 40 straight months of job growth.

A peace deal would mean a better future for Colombia and the region, said Santos. "Security is the basis for progress," he said in a speech at the National Press Club. Santos' government has also been investing in social programs, which he said has led to declining inequality levels and economic growth. "The hope is that if we reach a peace agreement, we can focus more resources on social inequality," he added.

A peace agreement would also have profound implications for the U.S.-Colombia relationship, Santos said, noting that even over the last decade the relationship has shifted from an agenda heavily focused on security to broader cooperation, including a free-trade agreement. One point of the peace talks focuses on ending the FARC's participation in the trafficking of illegal drugs, much of which is destined for the United States. Santos said he also hopes to increase technological cooperation with the United States, for example, in the government's attempt to connect all of Colombia's municipalities to broadband and fiber optics and leverage the connections to better combat poverty.

Critics of the negotiations, including outspoken former President Álvaro Uribe, under whom Santos served as defense minister, have argued that the peace talks legitimize the rebels and that the government should continue fighting them. However, Colombia has been addressing this conflict militarily for 50 years with no end in sight, and "every war has to end through some kind of negotiation," Santos said. "The way to end a conflict of this sort is by sitting down and negotiating a final agreement. And that is what we are trying to do."

"I am today more optimistic than I was a year ago," Santos said of the outlook for the peace talks, though he added that his optimism is "cautious" because the peace process is complex. Santos shied away from setting a deadline by which he wants to see negotiations concluded. "Fatal deadlines are not helpful," he said, adding that negotiations are "moving in the right direction." The government and the rebels have reached agreement on two of the six points on their agenda, agricultural and land reform and the FARC's political participation, and talks resumed Nov. 28 on the agenda's third point, the drug trade.

Political News

El Salvador Investigating $10 Mn Donation From Taiwan to Flores

President Mauricio Funes has asked El Salvador's attorney general to open an investigation into a $10 million donation that the Taiwanese government made to then-President Francisco Flores a decade ago, the Associated Press reported Tuesday. Funes told reporters that the request for the investigations stems from information El Salvador received about a U.S. Treasury Department investigation involving suspicious operations. Flores received a total of $10 million in checks that were drawn on a Taiwanese government account in 2003 and 2004, Funes said, citing the Treasury Department report. The money was intended for a government agency in El Salvador that was registering the land of poor farmers, Funes said, adding that the funds never reached the agency. Flores denied wrongdoing in an interview with a local newspaper, the AP reported.

U.S. Says it's Helping Cuban Mission to Find New Bank

The United States said is helping the Cuban Interests Section in Washington to find a new bank to operate its accounts after **M&T Bank** announced it was ceasing to provide banking services to foreign missions, the Associated Press reported last week. In a Nov. 27 communique, the U.S. State Department said that the bank severed its relationship with Havana due to "a business decision," adding that Washington has no power to order a bank to handle the accounts of a foreign mission. "The U.S. government seeks to help foreign missions in the United States that have trouble obtaining banking services, while ensuring the continued security of the U.S. financial system including through appropriate regulatory oversight," said the State Department. "We would like to see the Cuban missions return to full operations." The banking cutoff caused Cuba to stop providing nearly all consular services on Nov. 26, including visa processing and passport services, at the Cuban Interests Section in Washington as well as at its Permanent Mission to the United Nations in New York. Havana blamed the loss of its relationship with the bank on the five-decade U.S. embargo against Cuba. Approximately 557,000 U.S. travelers are expected to visit Cuba this year, carrying some $2 billion with them, a major boost for the nation's struggling economy, Emilio Morales of the U.S.-based **Havana Consulting Group** told the Associated Press. Most of the U.S. travelers to the communist island are Cuban-Americans who bring money to relatives, said Morales. "If there is no prompt solution to the measures taken by the government of Cuba on the suspension of consular services ... the Cuban people could be severely harmed economically by their relatives being unable to travel," Morales told the AP. "It would also mean million-dollar losses for agencies that sell airline tickets and for the Cuban government." Every month of delay could lead to lost remittances totaling $158 million, and $23 million in losses for travel companies, said Morales.

Economic News

Argentina Hiking Tax on Credit Card Purchases Abroad

Argentina is raising the tax on credit card purchases made abroad from 20 percent to 35 percent, according to a resolution published Tuesday in the nation's official gazette, Bloomberg News reported. The country is looking to reverse a steep decline in international reserves, which are at their lowest level since December 2006, as Argentina has used reserves to pay international debt and import energy, while Argentines have been spending more money abroad.

Argentina's international reserves are at their lowest level since December 2006.

POLITICAL & ECONOMIC BRIEFS

Honduran Electoral Court Delays Recount of Presidential Vote

Honduras' electoral court said Wednesday that it has delayed the recount of the country's disputed Nov. 24 election because representatives of the losing party did not show up for the recount of ballots, the Associated Press reported. The recount had been scheduled to begin Wednesday, but the Libre party of losing candidate Xiomara Castro did not arrive as agreed, said electoral court chief David Matamoros. Libre said on its **Facebook** page that the recount did not start because there was no consensus on how it would go forward.

Argentina Seeking $17 Billion in Investment in Russia, China

Argentina's planning minister, Julio de Vido, and his energy staff arrived Tuesday in Moscow, where they are seeking investors for $17 billion of infrastructure projects that will be auctioned off next year, including hydroelectric dams in Neuquén, a communications tower bear Buenos Aires and aqueducts in northern Argentina, Bloomberg News reported. The group will travel to Beijing next week to court investors there.

Brazil's Industrial Output Rises 0.6 Percent in October

Brazil's government announced Tuesday that industrial output rose a higher-than-expected 0.6 percent in October, signaling that the economy may bounce back after contracting in the July-to-September period, Bloomberg News reported. Production increased 0.9 percent in October as compared to the same month last year. The government announced Monday that gross domestic product contracted 0.5 percent in the three-month period that ended in September.

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the region have been carried by NOC-NOC agreements, the opposite of what drove the U.S. technology boom. The technology boom in the United States was driven by private entrepreneurs who were willing to take risks, knowing that they were supported by a predictable regulatory and legal environment and a very competitive financial sector. Even then, one cannot forget the dot-com bubble. In the case of Latin America, after a decade of resource nationalism, we have countries with declining production and reserves, massive imports of oil products and unsustainable subsidies. As long as the political leadership continues to see the region's energy wealth as a bounty to be exploited according to their political biases, Latin America will miss its potential. The real value of the region's energy potential is not in the size of its reserves, but rather in its ability to transform them into value-added products. And that does not have to mean building more refineries. Energy is one of the inputs necessary for creating value; the others are human capital, access to technology, competitive financial markets and a sustainable environment (land). In those areas, there is much that remains to be done in Latin America."

A Jeremy Martin, director of the energy program at the Institute of the Americas: "Energy is a technology business. Indeed, fracking, liquefied natural gas and smart grids are major technological advances seen in today's energy realm. And the interconnection of energy and technology in our hemisphere does not end there. Start in Canada, with great leaps to extract and process the oil sands, then consider how technology has turned much of the United States on its energy head and caused a rush to build LNG export terminals. But don't let the shale revolution obscure the role of technology for the ever-deeper drilling in the Gulf of Mexico—or in Brazil. Or the role technology has played to facilitate greater deployment of renewable energy and management of the electric sector more efficiently. These just scratch the surface of how intertwined energy and technology are. They also underscore another interconnection, between energy and economy. In Latin America the term 'palanca del desarrollo económico' frequently crops up to highlight the importance of the energy sector for the economy. Look no farther than the debate over energy reform in Mexico. The Peña Nieto government has stated its energy reform proposal will boost GDP by 1 percent and create 500,000 jobs during this sexenio, affirming the belief in the sector's potential as a driver of development. Mexico could prove to be an ideal case study for what is required to unleash still-dormant energy resources to power growth and development. The model Mexico chooses and how it implements it during the remainder of Peña Nieto's term will provide important insight into investment and regulatory frameworks. For the region more broadly and as Secretary Kerry alluded to in his remarks, governments across Latin America must continue to confront the need to balance energy demand, growth and environmental stewardship. Leveraging technology is certainly a tool to be employed in this critical endeavor in policymaking."

> "Latin America must continue to confront the need to balance energy demand, growth and environmental stewardship."
>
> *— Jeremy Martin*

The Energy Advisor *welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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