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FEATURED Q&A

Where Does Peru's Camisea Gas Project Stand After a Decade?

Q This year marks the 10th anniversary of the start of production at the massive Camisea natural gas project in Peru. Has the project met its high expectations after a decade in operation, and how successful will the project be in the next 10 years? What factors and market forces are shaping the future of the Camisea project, and the gas sector in Peru more broadly?

A Eleodoro Mayorga Alba, Peru's minister of energy and mines: "The arrival of the Camisea gas and condensates to Peru's energy market in 2004 brought a significant change in the energy matrix. Access to low-cost and high-quality energy in the last decade has increased industrial competitiveness and has been an effective driver of economic growth. The sector trade balance has reached equilibrium, despite the rapid increase in fuel consumption and the decline in crude oil production. The benefits have been substantial for the electricity sector and the central region. It has also caused a decrease in air pollution in cities due to access to cleaner vehicular fuels. The challenge for the next decade is to develop additional gas reserves, and more importantly, to extend the gas use to other regions, making efforts for its utilization not only as a fuel but also as a raw material for the petrochemical industry. The continuation of high rates of economic growth will depend on a secured and decentralized energy supply. The goal is to create a national system of gas pipelines. The next project is the South Peruvian Pipeline whose tender will take place at the end of June. This project will allow access to Camisea gas in the country's poorest region from 2018 onward. Subsequently, there will be another tender for a pipeline to the north-central region and for the construction of rings north and south of Lima. The network will finally be extended to incorporate the reserves of the northwest into the system."

Continued on page 3

Argentina Takes First Steps to Negotiate with Bondholders

The administration of Argentine President Cristina Fernández de Kirchner on Monday asked U.S. District Judge Thomas Griesa to give it more time to seek a deal with hedge funds suing to collect on defaulted bonds, a move markets interpreted as a positive first step. See story on page 2.

Photo: Government of Argentina.

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NEWS BRIEFS

Bolivia Coca Cultivation Drops to Lowest Level in 12 Years: UN

The United Nations said Monday that the area of land under coca cultivation in Bolivia last year dropped to its lowest in 12 years, down 9 percent from 2012, the Associated Press reported. The U.N. Office of Drugs and Crime does not measure potential cocaine production, however. Bolivia's coca crop was down to 29 square miles (23,000 hectares) last year. The government says 11.5 square miles of production would satisfy traditional demand.

BAE Systems Wins Contract With Mexican Navy for Guns

Sweden's **BAE Systems** said today it has been awarded a contract to produce and deliver four 57 Mk3 Naval Guns to the Mexican Navy. The gun can fire four rounds per second and switch immediately between ammunition types. In addition to Mexico, the 57 Mk3 is also in service with Navies and Coast Guards in the United States, Canada, Sweden, Finland, and Malaysia, the company said. Production will begin immediately, with gun deliveries beginning in 2015 and continuing through 2017. No financial details of the deal were disclosed.

China's ZTE to Build 4G Mobile Network in Dominican Republic

China's **ZTE Corporation** said Monday the company had won a contract from **Wind Telecom** to build the first 4G TD-LTE network in the Dominican Republic. Wind Telecom offers wireless broadband to consumers and businesses, and has financial backing from the World Bank's International Finance Corporation and the Inter-American Investment Corporation. No financial details were disclosed for the multi-year contract.

Economic News

Argentina Takes First Formal Steps to Negotiate with Bondholders

Argentina's government on Monday asked U.S. District Judge Thomas Griesa to give it more time to seek a deal with hedge funds suing to collect on bonds affected by the country's 2001 default, *The Wall Street Journal* reported. In a letter, Argentina's lawyer asked Griesa to suspend his ruling so the country doesn't miss an interest payment at the end of the month and to facilitate "good faith negotiations" between both parties, according to the report. The U.S. Supreme Court last week declined to review Griesa's ruling that Argentina must compensate holdout creditors or it cannot make payments to bondholders who accepted restructured debt in 2005 and 2010. The letter Monday was Argentina's "first step" formally in U.S. court toward negotiating with holdout creditors in a bid to end the dispute and avoid a default, according to the report. Also on Monday, Griesa appointed **McCarter & English** attorney Daniel Pollack to preside over negotiations, *Clarín* reported. According to his Web site bio, Pollack is "widely recognized as one of the preeminent trial lawyers in the country in the conduct of financial litigation" and has appeared as counsel in numerous federal and state appellate courts. Meanwhile, Argentine cabinet chief Jorge Capitanich said Monday he had written a letter to Griesa asking for "fair and equitable treatment for 100 percent of the bondholders," suggesting that satisfying the holdouts should not put at risk the payments being made to bondholders that previously renegotiated their debt. Argentine stocks and bonds rallied as much as 9 percent Monday in light of the conciliatory gestures by the government, despite news that the South American country's economy had slipped into recession in the first quarter, Reuters reported. The two funds that sued Argentina in the case, **NML Capital** and **Aurelius Management**, hold about $1.3 billion worth of bonds, but Argentina says the court decision would force it to pay all holdouts more than $15 billion, Agence France-Presse reported.

> *Argentine cabinet chief Jorge Capitanich said he had written a letter to Griesa asking for "fair and equitable treatment for 100 percent of the bondholders."*

Mexico Unemployment Rate Rises Slightly in May to 5 Percent

Mexico's unemployment rate rose slightly higher than expected in May to a seasonally adjusted 5 percent, up from 4.9 percent in April, state statistics agency INEGI said Monday. "The labor market continues to exhibit significant slack," **Goldman Sachs** analyst Alberto Ramos said in a research note about the data. "The unemployment rate remains much higher than the 3.7 percent average that prevailed from January 2007 through June 2008," he added. INEGI said that in May, 58.68 percent of the population 14 years and over in the country was economically active, slightly lower than that observed in the same month of 2013, when it stood at 59.89 percent. However, more than 8 percent of the working population is estimated to be "under-employed," expressing a need or want to work more hours, according to INEGI.

Oil Sector the Top Economic Concern for Colombia: Cárdenas

Colombian Finance Minister Mauricio Cárdenas said Friday his top concern for the country's economy at present is the oil sector, which he says has been hampered by rebel attacks on infrastructure and red tape, Reuters reported. In comments broadcast on local radio, Cárdenas said leftist rebel attacks have crimped oil output. Last year, there were 259 attacks on pipelines, the highest figure in a decade, according to government figures, and an attack on one of the country's major pipelines earlier this year shut it down for two months. Production growth is level-

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ing off after nearly doubling since 2007. The Finance Ministry's medium-term fiscal framework, released June 16, projects a decrease to an average production of 981,000 barrels per day this year, down from just over 1 million barrels per day last year. Cárdenas added that long waits for companies to receive permits to begin projects have also slowed down the growth of oil production in the country. "We cannot allow oil activity to slow down. I think this is the big focus now, because if we don't maintain the pace and oil activity falls for any reason, for terrorist attacks, for difficulties with environmental licensing, for social measures, all of that will affect all of us Colombians," Cárdenas said, according to *Portafolio*. Oil exports account for 40 percent of Colombia's export revenue, and analysts have warned about the high dependency on oil revenues in Latin America's fourth-largest oil producing country. In his campaign, President Juan Manuel Santos, who was re-elected on June 15 for a second term, said the government's management of the sector needs to be reorganized more efficiently to allow investments to become productive projects more quickly. Santos announced earlier this month that he will propose to Congress changes to a 2011 law that centralized oil and mining revenues, *El Nuevo Día* reported. [Editor's note: See Q&A on attacks on Colombia's oil infrastructure in the May 19-23 issue of the weekly *Energy Advisor*.]

Political News

Ecuador's Congress Likely to Pass Water Law Amid Protests

Ecuador's Congress could approve a controversial new Water Law as soon as today despite marches and protests by indigenous groups and other social activists, *El Comercio* reported. The head of Ecuador's Congress, Gabriela Rivadeneira, a leader of the ruling Alianza País coalition, advanced the final text of the bill over the weekend, which is expected to pass when brought to a vote. Marchers led by the Confederation of Indigenous Nationalities of Ecuador, or Conaie, left the Amazon region on Saturday and expect to arrive in Quito next Monday, *The Wall Street Journal* reported. Indigenous leaders said they want lawmakers to include proposals in the water bill that would guarantee the rights of indigenous communities over water

Rivadeneira

File Photo: Government of Ecuador.

resources. The bill's authors say they have already addressed Conaie's top concerns in the bill and that the protests are politically motivated. "The bill includes the main proposals made by indigenous groups during the last 20 years," said Miguel Carvajal, the director of the congressional committee on food sovereignty, which drafted the final text. "There is no reason to protest. The march is driven by political motivations." Ecuador's 2008 constitution ordered the legislature to enact a new law on water use that ensures formal regulation and equitable distribution of the resource, but indigenous groups fear the government will not do enough to protect access to clean water. The president of Conaie, Jorge Herrera, denied that the march was political and said it was part of a broader strategy, the *Journal* reported. Last month at Conaie's two-day congress, leaders proposed five changes to the bill: stop the privatization of water, create a Plurinational Water Council, halt mineral extraction that uses water resources intensively, create a national fund for water, and administer water resources on a community level, according to a summary of the congress posted online by Marc Becker, a professor at Truman State University.

Featured Q&A

Continued from page 1

A César Gutiérrez, director and consultant at Utilities Peru and a former head of Petroperú: "The exploitation of Camisea's gas should not only be seen as a cost-effective relationship between Peru's government and private companies, but rather as the beginning of a culture of megaprojects in Peru, where we have all learned and obtained the satisfaction of achievements and also experienced frustrated aspirations. In sum, the balance is positive as expectations about income to the coffers of the state and corporations were exceeded in all instances: national treasury, local and regional governments and universities. Remaining on the list of pending issues is the many-times announced massification of natural gas, understood as the search for the universalization of service, a task that will be very difficult to achieve if the effort is left only to concessionaires. There are also doubts about the environmental handling and optimization of the operation, with growing criticism that in the long-term it will remain unable to commercially exploit as much as 10 percent of the existing liquid reserves. Last on the unfulfilled agenda, it is time to release all the reserves of lot 88 (Camisea) for use of the internal market, which to date is an unfilled political promise. Camisea does not appear in the public debate today, but it would be wrong to think the issue is buried. The trilogy of outstanding issues mentioned could come to the fore

> "It is time to release all the reserves of lot 88 for use of the internal market, which to date is an unfilled political promise."
>
> — *César Gutiérrez*

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Featured Q&A

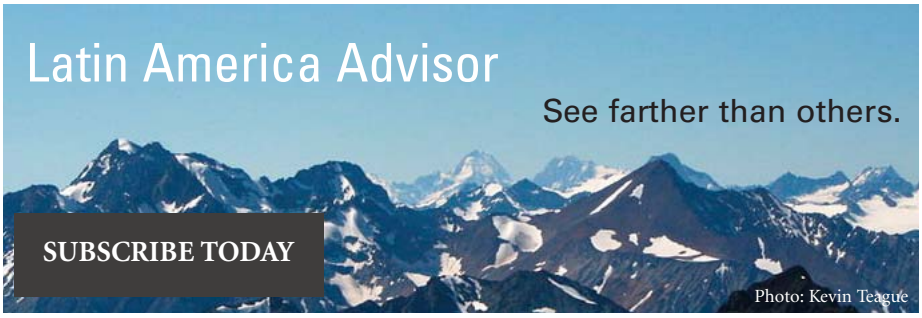
Continued from page 3

at any moment. It will be necessary for the field's operators and authorities to address the unresolved agenda before it becomes politicized, resulting in bad decisions."

Jeremy Martin, director of the energy program at the Institute of the Americas: "It is hard to overstate the importance of Camisea. The project has completely revamped Peru's energy matrix to one thirsting for natural gas. Indeed, the project provides all of the natural gas consumed in Lima and accounts for 50 percent of electric generation in the country. Additionally, Camisea has insured that Peru's hydrocarbon trade balance remains positive largely on the back of the natural gas liquids produced. In terms of the broader economy, the project has fostered investment of more than $13 billion and boosted annual GDP by 0.25 percent. This year marks the 10th anniversary of production from Camisea, but the project is also celebrating the 31st anniversary of its discovery by Shell. It is important to note this anniversary to underscore how the project has transitioned from a challenge to an opportunity and economic cornerstone for Peru. The consortium led by Argentine firm Pluspetrol began the project anew in 2000 and first delivered natural gas to Lima in 2004. The consortium overcame major logistical challenges—no roads were built—and primarily used fluvial routes and helicopters to land the requisite equipment—700,000 tons—for the 'offshore on land' operation. In terms of the future, Camisea's past is prologue: the project has unleashed massive demand for natural gas in the Andean nation, primarily for electric generation to sustain one of Latin America's fastest-growing economies. One estimate points to demand for natural gas almost doubling in the country's power sector by 2024. But despite impressive impacts to date, there are challenges for Camisea and Peru's natural gas potential more broadly. Chief among them is the need for enhanced infrastructure. To sustain the huge gains of the last 10 years, downstream infrastructure and pipelines must be a major focus, particularly the long-awaited Gasoducto del Sur project."

> "One estimate points to demand for natural gas almost doubling in the country's power sector by 2024."
>
> — *Jeremy Martin*

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



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