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## LATIN AMERICA ADVISOR ► ENERGY

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### FEATURED Q&A

#### Will Argentina's Hydrocarbons Bill Revive the Sector?

**Q** Argentina's government in mid-September submitted legislation that would revise the laws governing the country's oil and gas sector after reaching agreement with the governors of oil-producing provinces as the country looks to boost investment in the sector and develop some of the world's largest reserves of shale oil and gas to help close a costly energy deficit. How significant are the changes, and what are the most important aspects of the bill? How are potential investors viewing the measure, and is it enough to revive the country's hydrocarbons sector?

**A** Isabella Alcañiz, assistant professor in the Department of Government and Politics at the University of Maryland: "The proposed hydrocarbon law of Argentina, which has just passed the Senate, updates legislation from the 1960s and reflects some of the major changes that have taken place in the sector in recent years. In addition to traditional oil production, the new law regulates offshore petroleum and shale gas, which remained in regulation limbo under the old law. Further, it caps royalties for oil-producing provinces at 12 percent; it centralizes the bidding and adjudication of contracts at the national level; it considerably increases the length of concessions for offshore and non-conventional exploration (30 and 35 years respectively); and it allows up to 20 percent of production to be

exported without duties being applied or sold in the domestic market at international prices. This last item is contingent on the company meeting sizable investment levels. Investors undoubtedly will be concerned about the remaining 80 percent of production that is not clearly regulated under the new law. But overall, they should view this legislation in a positive light. To a great extent, the proposed bill institutionalizes last year's agreement between the Argentine government and Chevron for the exploration and production of shale oil

*Continued on page 3*



#### Peru Inks Transmission Line Deal With Spanish Group

Peruvian President Ollanta Humala (left) on Monday participated in the signing of a contract with Spanish consortium Isolux Transmisora Peruana, which will build a power line linking the city of Iquitos in the country's Amazon region to the main power grid. See story on page 3.

*Photo: Government of Peru.*

### Inside This Issue

**FEATURED Q&A:** Will Argentina's Hydrocarbons Bill Revive the Sector?.....1

YPFB, Petrobras to Discuss Extending Gas Supply Contract.....2

Mexico's Grupo Alemán Agrees to Buy Oceanografía.....2

Pluspetrol to Acquire Apco Oil and Gas for \$427 Million.....2

Venezuela to Work With OPEC to Prevent Fall in Oil Prices: Ramírez.....3

Spanish Consortium to Construct Power Line to Peruvian Amazon .....3

Solar Power Installations to Increase Sixfold Year-Over-Year: GTM.....4

**Advisor Q&A:** What Are the Implications of Colombia's Tax Reform Plans? .....4

Political and Economic News: Brazil, Bolivia, Chile and More .....4-5

## ENERGY SECTOR BRIEFS

**Batista to Face Trial Next Month for Alleged Insider Trading**

Brazilian businessman Eike Batista will face criminal charges in court on Nov. 18 after a Rio de Janeiro judge rejected his initial defense, *The New York Times* reported Tuesday. Last month, the federal prosecutor in Rio de Janeiro, where Batista's **OGX** oil company is headquartered, charged Batista with insider trading and manipulating the now-bankrupt company's share prices by making a promise to buy \$1 billion in stock to shore up investor confidence and then renegeing.

**Eletrobras Receives Approval for Loan from KfW for Wind Project**

Brazil's planning ministry has given **Eletrosul Centrais Elétricas**, a unit of state-owned power company **Eletrobras**, permission to borrow 66.8 million euros (\$84 million) from German state development bank **KfW**, Bloomberg News reported Monday. The money will go toward a planned \$118 million expansion of the company's Cerro Chato wind power complex in the southern state of Rio Grande do Sul, **Eletrobras** said in a statement Oct. 3. The expansion will add 48 megawatts to the complex, taking its installed capacity up to 216 MW.

**Halliburton Signs 15-Year Oil Services Contract in Ecuador**

Houston-based **Halliburton** said Wednesday it had signed long-term contracts with **Petroamazonas**, Ecuador's state-run oil company, to provide services aimed at improving output across nine mature oilfields. The contracts terms are for 15 years plus a potential five-year extension. **Halliburton** said it plans to invest approximately \$1 billion during the first five years of the contract.

**Oil & Gas News****YPFB, Petrobras to Discuss Extending Gas Supply Contract**

Bolivian state oil company **YPFB** and Brazilian counterpart **Petrobras** will hold talks about extending a natural-gas supply contract due to expire in 2019, **YPFB** president Carlos Villegas said Monday, **Platts** reported. "Petrobras authorities have officially expressed their interest in starting talks for a new contract that will cover 2020 and beyond," Villegas told state news

*Negotiations for the new contract could begin next year.*

agency **ABI**. "We have accepted. Of course it is good news because the current contract concludes in 2019," Villegas added, according to **EFE**. The negotiations for a new contract, which could begin next year, will focus on determining price, supply volume and calorific value of the natural gas exports. Under a 20-year contract signed in 1996 and which took effect in 1999, Brazil imports about 30 million cubic meters of natural gas per day from Bolivia, paying an average of \$9.30 per million British thermal units (MMBtu). In August, the two companies signed an agreement for Bolivia to export another 2.6 million cubic meters per day at an average price of \$10.24/MMBtu to feed a natural-gas powered plant in Cuiabá in the Brazilian state of Mato Grosso, located near the countries' border. The contract can be interrupted at any time. Brazil does not produce enough natural gas to meet domestic demand, which has been especially strong this year as a drought has reduced output at hydroelectric power plants and required natural-gas fired plants to come online to generate power, according to **Platts**.

**Mexico's Grupo Alemán Agrees to Buy Oceanografía**

Mexico's **Grupo Alemán** has agreed to buy **Oceanografía**, the bankrupt oil services

provider that was at the center of an alleged loan fraud that cost **Citigroup** in excess of \$500 million, Reuters reported. Mexico's government seized **Oceanografía** in February after it was accused of using falsified invoices as collateral for loans that it received from Citi's Mexican unit, **Banamex**. "Grupo Alemán has reached a preliminary agreement with shareholders to take over **Oceanografía**," Gabriela Jiménez, the head of institutional relations for the privately held company, said in a statement. **Grupo Alemán** owns the **Interjet** airline and also has interests in maritime transport. The company's agreement to buy **Oceanografía** is subject to conditions that include reaching a deal with creditors and other parties involved with the oil services firm. The value of the purchase, among other details, still must be worked out amid the bankruptcy process, a person familiar with the matter told Reuters. An **Oceanografía** spokesman declined to comment to the news service. A judge overseeing the company's bankruptcy proceeding lifted the prohibition that had kept the company from contracting with the government, clearing the way for it to start doing business again. According to 2012 financial statements, **Oceanografía** received 97 percent of its 12.1 billion pesos (\$899.44 million) in revenue from Mexican state oil company **Pemex**.

**Pluspetrol to Acquire Apco Oil and Gas for \$427 Million**

Private oil and gas company **Pluspetrol Resources Corp.** will buy **Apco Oil and Gas** for \$427 million, the companies said Oct. 3, Reuters reported. Shareholders of Tulsa-based **Apco** will receive \$14.50 per share according to the deal, a 15 percent premium over the company's Oct. 2 closing price of \$12.64. **Apco** has stakes in nine oil and gas concessions in Argentina, as well as three exploration and production contracts in Colombia, the Associated Press reported. **Pluspetrol** works in Argentina, Bolivia, Colombia, Venezuela, Angola and Peru, where it is the largest oil and gas production company. The deal, which has already been approved by **Apco's** board, also requires approval from two-thirds of shareholders. **WPX Energy**, which has a 69 percent controlling stake in

Apco, said in the statement that it supports the deal and will receive \$294 million for its interest.

## Venezuela to Work With OPEC to Prevent Fall in Oil Prices: Ramírez

Venezuela will work with other member countries of OPEC to prevent oil prices from falling, Foreign Minister Rafael Ramírez said Tuesday, Interfax reported. "We will actively work with the OPEC countries to prevent oil prices from decreasing. We have prepared our proposal," Ramírez said at a press conference in Russia. "We have our own interests, the interests of oil extracting countries, which we need to defend," he added. Ramírez, who was Venezuela's oil minister and head of state-run PDVSA before a cabinet shuffle in September, was in Russia to meet with his Russian counterpart, Sergey Lavrov. Ramírez also highlighted the ties between Venezuela and Russia's oil industries, especially state-owned Rosneft, which has a significant participation in Venezuela's Orinoco Belt, where some of the largest crude reserves in the world are located. Last week, Moscow-based Lukoil agreed to sell its 20 percent stake in a consortium developing the Junín-6 oil project in the Orinoco belt to Rosneft, the *Kommersant* daily reported, citing sources close to the talks, according to Reuters. The consortium, led by Rosneft and also including Russia's Gazprom, has a 40 percent stake in the project, with PDVSA holding the remaining stake.



Ramírez

File Photo: Venezuelan Government.

and extending a bank transaction tax. The industry group said increasing taxes on corporate earnings would damage the oil industry, which is one of the main drivers of Colombia's economy but has been affected this year by rebel attacks on its infrastructure.

## Colombian Oil Association Opposes Tax Reforms

Changes to the tax structure proposed by Colombia's government and presented to the legislature would Oct. 3 would hurt the oil sector, the Colombian Oil Association said in a statement Saturday, Reuters reported. The bill includes changes such as increasing a tax on earnings greater than 1 billion pesos to 12 percent from 9 percent

## Featured Q&A

*Continued from page 1*

and gas in Vaca Muerta. For now, at least, what is good for Chevron should be good enough for other companies that want in on Argentina's massive gas reserves."

**A Pablo Rueda, partner at Pérez Alati, Grondona, Benites, Arntsen & Martínez de Hoz in Buenos Aires:**

"In September, the federal government and the Organization of Hydrocarbon Producing Provinces agreed on a bill to amend the Federal Hydrocarbons Law. If passed into law, the bill would represent the most significant amendment to the Federal Hydrocarbons Law since its enactment in 1967. The bill aims to improve the investment conditions of the Argentine oil industry by means of (i) extending exploration and production terms and its extensions, (ii) creating a special type of concession for unconventional hydrocarbon projects, (iii) capping royalties and bonus fees, (iv) reducing government take in special types of projects, and (v) reinstating the right to export a percentage of oil and gas production while maintaining abroad the export proceeds, among other benefits. The bill is as important to investors for the changes made to the law's existing text as it is for the changes that are not proposed. This is because most of the bills intending to amend the 1967 Hydrocarbons Law, particularly in the past ten years, purported to introduce

changes that would seriously affect investments in the sector. This bill does not contain any provision that may be considered against investors, but only tackles half of the needs of investors. The other half not covered relates to Argentine present political risks, foreign exchange restrictions, the uncertainty of future domestic oil and natural gas prices, and the ability of oil and gas producers to take long-term firm delivery commitments of natural gas. Normally these risks are created or mitigated, as the case may be, by laws and regulations other than the Hydrocarbons Laws, and all of them are still unresolved."

**A Sylvia Gaylord, assistant professor in the Division of Liberal Arts and International Studies at the Colorado School of Mines:**

"The Argentine Congress is currently debating new legislation for the hydrocarbon sector. The bill, which is expected to be passed into law, brings significant changes to the regulation of the oil and gas business in the country. The bill differentiates between conventional and non-conventional resources and extends production concessions while shortening exploration periods. It also eliminates the acarreo system, by which provincial state-owned oil and gas companies became automatic partners of private investors, and sets a uniform royalty rate of 12 percent. Also of note is the

*Continued on page 6*

meter (390-mile) transmission line that will link the northern city of Moyobamba to the remote northern Amazon city of Iquitos, EFE reported. Energy Minister Eleodoro Mayorga Alba signed the agreement for construction and 30 years of maintenance with the consortium, which is made up Madrid-based Isolux Ingeniería de España and Mexico City-based Isolux de México, two subsidiaries of Spanish engineering and construction group Isolux Corsán. The line will link Iquitos, the capital of the northern Loreto region that currently uses an isolated electricity system based on fossil fuels, to the main grid. The 220-kilovolt line will be built in 55 months, with construction

## Power Sector News

### Spanish Consortium to Construct Power Line to Peruvian Amazon

The Isolux Transmisora Peruana consortium on Monday signed a contract for the construction of a \$500 million, 620-kilo-

meter (390-mile) transmission line that will link the northern city of Moyobamba to the remote northern Amazon city of Iquitos, EFE reported. Energy Minister Eleodoro Mayorga Alba signed the agreement for construction and 30 years of maintenance with the consortium, which is made up Madrid-based Isolux Ingeniería de España and Mexico City-based Isolux de México, two subsidiaries of Spanish engineering and construction group Isolux Corsán. The line will link Iquitos, the capital of the northern Loreto region that currently uses an isolated electricity system based on fossil fuels, to the main grid. The 220-kilovolt line will be built in 55 months, with construction

## Advisor Q&A

### What Are the Implications of Colombia's Tax Reform Plans?

**Q** Colombia's government in early October submitted a tax reform plan to the country's Congress that includes, among other measures, an increased tax on corporate profits and an extension of a bank transaction tax, but revised a controversial proposal to increase the wealth tax after criticism from business leaders. The measure is an effort to boost government revenues to meet budget spending goals and fill President Juan Manuel Santos' campaign pledge to invest in areas including education amid lower projected oil revenues. What are the implications of Colombia's new tax reform proposal? Will the new tax reduce investment in Colombia and send domestic capital elsewhere in the world?

**A** Munir Jalil, director and chief economist for the Andean region at Citi Research: "The wealth tax and the financial transaction tax are already in place in Colombia, but were scheduled for phase-out in 2015. This created a hole in government revenues for next year of 7 trillion pesos (\$3.5 billion). In addition, reduction in oil output and prices this year led to a fall in the sector's expected dividends and taxes by 5.5 trillion pesos. The government initially decided it would extend the two taxes to fill the gap. However, since the amount needed was higher than could be collected with the same rates, it initially proposed increasing the wealth tax. The proposal was not well received by the corporate sector or

big entrepreneurs, who said they preferred increases in the VAT or income taxes. In the bill the government sent Congress, the 12.5 trillion pesos the government needs is financed by extending both the financial transaction tax and the wealth tax, but left at the same rates, and the income tax is increased by 3 percent. This will imply a higher tax burden for corporations, which will pay the extra amount that individuals were going to pay in the form of a wealth tax. For multinational companies, the change is positive because they can deduct the amount of income taxes their subsidiaries pay, whereas the wealth tax was not deductible. For the government, this was like picking between poisons as any measure would have negative side effects. In the case of the income tax increase, the effect should be a reduction in the amount of disposable income by companies and hence in dividends. The wealth tax could affect investment, but as the conditions of the tax were not changed, it could be argued that even with this tax in the past, the Colombian economy was able to increase the amount of investment to close to 30 percent of GDP. Having said that, with the current outlook for commodities, especially a bearish view on oil, the question of the effect this tax could have on investment in the country is relevant."

*Editor's note: More commentary on this topic appears in Thursday's [issue](#) of the Dialogue's daily Advisor.*

beginning next year, and deliver 150 megawatts to Iquitos, triple the city's current demand but just half of the line's planned 300-MW capacity. The project was planned to avoid environmentally sensitive areas, and will include two substations and integrate a fiber optic network to increase the telecommunications between Loreto and the rest of Peru. Energy vice minister Edwin Quintanilla said the that once operational, the line will help Iquitos reduce the amount spent on fuel in the region, "and this will have an impact in contributing to reduce the effect of climate change in the area," he said, *Gestión* reported. President Ollanta Humala said the line will also bring lower power prices to the area.

### Gamesa Inks Deal to Supply Turbines for 9 Brazilian Wind Farms

Spanish wind turbine manufacturer Gamesa announced Oct. 2 that it has signed its first deal with Brazilian developer CPFL Renováveis, which will see it supply 110 turbines with 220 megawatts of total capacity that will be used in nine wind farms being developed in the northeastern state of Rio Grande do Norte. The turbines will be delivered in 2016, and Gamesa will operate and maintain them for 15 years. A day later, Danish turbine manufacturer Vestas announced that it had reached an "amicable" agreement with CPFL Renováveis to cancel its 254 MW order for turbines that had been slated to be used at two of the complexes in Rio Grande do Norte due to "changes to local Brazilian legislation which occurred after the contract was agreed," Clean Technica reported. "As CPFL and Vestas have been unable to agree on the consequences of those specific legislative changes, CPFL and Vestas have amicably agreed to the cancellation of the project," Vestas said in a statement. The company added that it does not expect the cancellation will affect its 2014 outlook.

### Solar Power Installations to Increase Sixfold Year-Over-Year: GTM

Installation of solar PV projects in Latin America will increase more than six-fold this year as compared to last year, with 805

megawatts of solar PV expected to be installed in the region this year, according to GTM Research's most recent Latin American PV Playbook, *pv magazine* reported Oct. 1. That figure is expected to increase to 2.3 gigawatts of new solar next year. Chile leads the way with 308 MW expected to be installed this year and with 1 gigawatt under construction. Other big players are Mexico, which will install 97 MW, Honduras with 72 MW, Ecuador

with 64 MW and Uruguay with 59 MW. After 2015, GTM expects Mexico will be the largest solar market in the region. The report also highlighted policy changes in the region that are favorable to the development of solar power, including Mexico's energy reform, a decision by Brazilian development bank BNDES to provide financing for solar projects in an upcoming reserve auction and regulations for net metering in Chile.

## Political News

### Rousseff, Neves Advance to Presidential Runoff in Brazil

President Dilma Rousseff and challenger Aécio Neves emerged Sunday as the top vote-getters in the first round of Brazil's presidential election, sending them to an Oct. 26 runoff and ending the campaign of Brazilian Socialist Party (PSB) candidate Marina Silva who finished third.



Neves

File Photo: Neves Campaign.

With nearly all the ballots counted, Rousseff won 41.6 percent of the vote, while Neves garnered 33.5 percent and Silva finished with 21.3 percent, according to Brazil's Supreme Electoral Tribunal, or TSE. The result amounted to a comeback for

Neves, of the Brazilian Social Democracy Party, and a stunning defeat for Silva, who had been seen as a significant threat to Rousseff. On Sunday night, Rousseff, of the Workers' Party, said Sunday's result signified voters' rejection of "the ghosts of the past, recession and unemployment," BBC News reported. "I clearly understood the message from the streets and from the ballot boxes. The majority of Brazilians want us to speed up the Brazil we are building," she said. Neves said after Sunday's vote that he represented "hope for change" and called on Silva's voters to support him. Neves, a senator and former governor of Minas Gerais state, said Rousseff's government has mismanaged the economy. "Those in the government lost their chance to make the country grow," said Neves, Bloomberg News reported. "They lost their opportunity to control inflation." Silva said Sunday night that she and the Socialist Party would discuss any potential endorsements in the coming days. "Brazil has signaled it is not for the status quo," Silva told reporters in São Paulo. "There is no way to misinterpret the sentiment of voters, of the 60 percent who moved for change." Silva had been the running mate of PSB presidential candidate Eduardo Campos and replaced

him at the top of the ticket when Campos was killed in an Aug. 13 plane crash. Silva's support grew in the polls, and some showed her defeating Rousseff in a potential runoff. However, Neves, who had been all but written off, now poses a serious threat to Rousseff, political analyst André César told Agence France-Presse. "Neves, who looked condemned to the shadows a month ago in the face of Silva and Rousseff's dominance in the polls, arose from the ashes and surprised with a much better score than expected," he said. "That means he arrives much stronger for the second round, which will be fought vote by vote." In addition to voting for president on Sunday, Brazilians also cast ballots for 27 governors, 513 congressmen, a third of the Senate and 1,069 regional lawmakers. [Editor's note: See [Q&A](#) on Brazil's presidential election in the Tuesday issue of the daily *Advisor*.]

## Economic News

### Latin America on Track for Slowest Growth Since 2009

Latin America is heading toward its slowest annual growth rate since 2009, during the global financial crisis, the World Bank said Tuesday, Dow Jones reported. The World Bank also lowered its forecast for economic growth in the region by almost half, to 1.2 percent. The World Bank said in its semiannual report on the region that Latin America could see 2.2 percent growth next year, but added that it is unclear whether the current downswing will continue. "We do not know if this deceleration has hit bottom, or if there is further deceleration to come," Augusto de la Torre, the World Bank's chief economist for Latin America, told the news service in a phone interview. He added that growth "is not going to be what it used to be in the past decade, partially because you do not have the external tailwinds in our favor." For several years, a global boom in commodities, driven by demand from China, boosted Latin American economies. However, China's growth has slowed, and lower commodity prices since 2011 have taken a toll on the region's commodity-exporting nations.

## POLITICAL & ECONOMIC BRIEFS

### Bolivian Campaigns Officially End Ahead of Sunday Election

A 72-hour period of mandated campaign silence begins Thursday in Bolivia as voters prepare to head to the polls Sunday to elect the nation's president, *La Razón* reported. Should he win re-election, as polls have been forecasting, incumbent President Evo Morales will be in office until 2020. Wrapping up his campaign, former President Jorge Quiroga, of the opposition Christian Democratic Party, which is polling with support in the single digits, attempted to rally constituents by predicting that Sunday will result in a "Neves effect," referring to last weekend's elections in Brazil where Aécio Neves, who had been third place in polls, came out a strong second-place finisher.

### Voters Return Castañeda to Lima Mayor's Office

Luis Castañeda was elected Sunday to a four-year term as the mayor of Lima, a position he served in from 2003 to 2011, *The Wall Street Journal* reported. With 83 percent of votes counted, Castañeda, of the National Solidary party, had just over 50 percent of the vote, according to government elections agency ONPE, Perú 21 reported. On Sunday, Peruvians also cast their ballots for mayors, municipal councils and 25 regional presidents.

### Chile's Central Bank Director Sees Room for More Rate Cuts

Chilean central bank director Pablo García told Bloomberg News Monday that there is room for the bank to cut rates once or twice more amid economic growth that was the slowest in four years in August and a stable inflation forecast. Over the past year, the base rate has been cut seven times to 3.25 percent.

**Featured Q&A***Continued from page 3*

extension to future investors of benefits offered by decree to Chevron in a 2013 deal. These include the right to export 20 percent of production in excess of domestic demand after five years without export duties and profit repatriation restrictions. The bill enjoys the approval of the governors, who have ceded benefits and control on future deals to national oil company YPF and the federal government. Overall, investors have reacted positively to the Argentine government's initiatives, beginning with the appointment of a new president of YPF and his policy of increasing domestic prices. YPF stock has recovered significantly since hitting a low after the expropriation of Repsol's shares, and the company floated a 10-year bond at favorable rates in April of this year. While the government's new policies have gone some distance in normalizing conditions for new private investment, uncertainty still remains with respect to Argentina's delicate macroeconomic situation and the capacity of YPF to steer existing and future energy deals."

**A** **Matías Borderes, senior associate at Estudio Beccar Varela in Buenos Aires:** "The bill introduces several important changes to existing hydrocarbon legislation with the direct intention of increasing investments and the development of oil and gas reservoirs, especially those of a non-conventional nature (shale oil and gas, etc.). In addition to specific changes to the Federal Hydrocarbons Law No. 17,319, as amended, the bill seeks two things. First, to include projects of \$250 million or more in the promotion regime created by Executive Order No. 929/2013 (which among its benefits includes the rights to export a percentage of production without the payment of export taxes and to maintain abroad the proceeds obtained from those exports). And second, to take the first steps toward uniform provincial tax and environmental rules. In addition to establishing benefits for non-conventional exploration and production (longer concession terms, possibility to obtain a reduction in the

amount of royalties, those established by the promotion regime created by Executive Order No. 929/2013, etc.), the bill also establishes certain limits to the powers of federal and provincial governments (limits to the 'concession extension bonus' payable by the concession holder, prohibition to reserve areas for state-owned companies, obligation to

“Though the legislative changes are generally positive, it is still not clear if they—by themselves—will be enough to revive Argentina's hydrocarbon sector.”

— *Matías Borderes*

make investments under association agreements, among others). Another important change is the possibility of obtaining an unlimited amount of 10-year extensions to production concessions (previously limited to only one). Though the legislative changes are generally positive, it is still not clear if they—by themselves—will be enough to revive Argentina's hydrocarbon sector. The federal government may need to also make changes and establish clear rules with respect to other matters, such as the transfer of proceeds out of Argentina."

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

*Editor's note: Some commentaries were submitted before Argentina's Senate passed the bill 38-28 early Thursday after much debate. The bill will be sent to the Chamber of Deputies, where it is expected to pass later this month. In related news, YPF denied a claim made Wednesday by Argentina's industry ministry that the oil company had reached a deal with Russia's Gazprom to develop the Vaca Muerta shale formation, saying it has conducted meetings but no agreement has been signed.*

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