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FEATURED Q&A

Will Brazil's New Natural Gas Law Stimulate Investment?

Q Earlier this year, Brazilian President Luiz Inacio Lula da Silva signed a new natural gas law that aims to better regulate the industry, stimulate domestic production and spur investment in natural gas infrastructure. What will be the biggest changes in the new regulatory regime and is the law likely to have its intended effect? Will Brazil be able to reduce its dependence on natural gas imports from Bolivia? What role will liquefied natural gas, a relatively new phenomenon in Brazil, play in the country's natural gas market?

A Larry Pascal, member of the *Energy Advisor* board and partner at Haynes and Boone in Dallas: "In March, Brazil adopted the Brazilian gas law (No. 11,909/09), which regulates the transportation of natural gas, as well as its treatment, processing, storage, liquefaction, re-gasification and marketing, although the Brazilian petroleum law (No. 9,478) will continue to regulate the upstream segment. The new gas law is expected to bring more legal certainty and security to private investors, although the regulations have not been released and constitutional issues as to jurisdiction between the federal government and the states remain. The new law has several important aspects. First, it establishes a 30-year concession regime (with the possibility of one renewal for the

same period) for gas pipelines and natural gas storage facilities. Second, it allows commercial purchasers to build their own pipelines to import gas directly from foreign producers, transporting the product to a pipeline network or paying for the use of the government's pipeline network. Third, it authorizes the Ministry of Mines and Energy to use public-private partnerships to develop new pipeline projects or increase capacity of existing ones. Finally, it authorizes state-owned companies and joint ventures to agree to binding arbitra-

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Ecuador: Terms of New Service Contracts Available in Sept.

Ecuadorian Oil Minister Germanico Pinto said the government will release the terms of new oil service contracts by mid-September, and plans to have all contracts signed by oil companies by the end of 2010. See story on page 2.

File Photo: Ecuadorian Government.

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ENERGY SECTOR BRIEFS

Valor: Brazil Gov't Could Put \$54 Billion Into Petrobras

Brazil's government could inject 100 billion reais (\$54 billion) into state oil company **Petrobras**, boosting its stake in the company as Petrobras develops the country's vast pre-salt reserves, *Valor Economico* reported Thursday, according to wire services. The government would fund the move by selling bonds tied to future oil sales, the newspaper said, without identifying its source. On Monday, Brazil's government is slated to present to Congress new regulations governing development of the pre-salt area.

Company Officials Say Cnooc Has No Interest in YPF Stake

Chinese oil company **Cnooc** has no interest in bidding for **Repsol YPF's** majority stake in Argentina's **YPF**, officials from the Chinese and Spanish companies said Wednesday, according to Dow Jones. Cnooc Chairman Fu Chengyu said his company will not make any bids for YPF, a statement that was echoed later by a Repsol representative. Earlier this month, press reports identified the Chinese company as a potential buyer of the YPF stake.

Petrobras Discussing Possible Biofuels Deal With Brenco

Brazilian state oil company **Petrobras** said Monday that it is in discussions with ethanol producer **Brenco** in order to explore biofuels possibilities, Reuters reported. In a regulatory filing, Petrobras said it has "a goal of identifying possible synergies in the sector of biofuels production." Brenco may sell a stake in the firm to Petrobras or other companies so that it can raise cash and restructure debt, *Valor Economico* reported Monday.

Oil and Gas News

Colombia's Ecopetrol, Unions Sign New Five-Year Labor Agreement

Colombian state-owned oil company **Ecopetrol** and three unions representing its workers have signed a new five-year collective labor deal, averting any possible work stoppages, Bloomberg News report-

cific parameters for each oil block. I have optimism that we will reach agreements," Pinto said in a press conference, Dow Jones reported. President Rafael Correa is aiming to increase the state's role in oil production by requiring companies to change from participatory contracts, in which firms retain and sell a portion of the oil they produce, to service agreements. Ecuador has so far signed a number of temporary agreements with com-

“This is a good deal, not only for the workers.”

— Union leader German Osman

ed Monday. Members of unions including the Oil Industry Workers' Association will receive pay raises of approximately 6 percent in the first year of the contract in addition to future increases linked to the rate of inflation, Ecopetrol CEO Javier Gutierrez and union leader German Osman told reporters Monday in Bogota. Ecopetrol wants to more than double its oil output within six years, to 1 million barrels daily. The new agreement is "a very important step to help us reach the goal of 1 million barrels a day," said Gutierrez. Osman said he also was satisfied with the agreement. "This is a good deal, not only for the workers," Osman said at the press conference. After its previous contract with workers expired in June, Ecopetrol said it was concerned failure to reach a new deal could lead to strikes and other unrest.

Minister: Ecuador Will Sign New Oil Contracts in 2010

Ecuador's oil minister said Tuesday the government expects to sign new service agreements with private oil companies by the end of 2010, wire services reported. "We will have everything next year," Germanico Pinto was quoted as saying by Reuters. Pinto said the ministry hopes to finalize the terms of the new contracts by the middle of September, after which it will begin negotiations with oil companies. "What we will negotiate will be spe-

panies to bridge the gap until the new contracts are ready. On Tuesday, the government agreed to extend by one year a contract with **Andes Petroleum**, a consortium led by Chinese state oil company **CNPC**. The government has also negotiated a one-year extension with Italy's **ENI**, according to the reports. [Editor's note: See related interview with Ecuador's ambassador in the Aug 10-14 [issue](#) of the *Energy Advisor*.]

Repsol YPF to Pay \$207 Million to Develop Oil Block in Venezuela

Spanish oil company **Repsol YPF** will pay \$207 million for rights to develop part of Venezuela's oil-rich Orinoco Belt, a Venezuelan legislator announced Wednesday. Angel Rodriguez, who heads the energy and mines commission in the Venezuela's National Assembly, said the legislature would grant **Petroquiriquire**, a joint venture between Repsol and a unit of state oil company **PDVSA**, exclusive rights to develop the Barua-Motatan area in the Orinoco Belt. Of the \$207 million price tag, Repsol will pay for \$173.5 million with vouchers granted by Venezuela as compensation for the nationalization of some of the firm's operations, and the rest in cash, a company spokesman told Reuters. Rodriguez said the field in question would produce 40,000 barrels per day in its initial phase. "In the near future, that could double," he said in a press release.

Subscriber Notice

Larry Pascal Joins the *Energy Advisor* Board

The *Latin America Energy Advisor* is pleased to announce that Larry Pascal has joined the Board of Advisors. Pascal is chairman of the Americas Practice Group at **Haynes and Boone** in Dallas, where he advises multinational companies on investments and controversies throughout Latin America and the Caribbean.

In the energy sector specifically, he has been involved with projects in Mexico, Peru, Colombia, El Salvador and the United States. He has published numerous articles about legal matters in the oil and gas sector in Venezuela, Colombia and elsewhere in South America.

Pascal has also served as adjunct professor at SMU Dedman School of Law and the University of Texas at Dallas Graduate School of Business. He was also chair of the International Law Section of the State Bar of Texas, where he headed a campaign to adopt the ABA Model Rule for Foreign Legal Consultants.

Pascal was recognized in *Chambers USA 2007* as one of the leading practitioners in the country for Latin American foreign investment, and as one of "The Best Lawyers in America" in *International Trade and Finance Law*, 2009.

He holds a JD from the University of Texas and BA from the University of Kansas.



"We were thinking about creating a new joint venture to develop this area, but instead we opted for an already established one for economic feasibility and to take advantage of existing synergies." In related news, PDVSA said Tuesday it is continuing talks with a consortium of Russian companies to develop the Junin 6 block in the Orinoco Belt. PDVSA Vice President Eulogio del Pino, who is heading negotiations, said the goal of talks is to "define the parameters from the point of view of production, refining, economic models and legal matters" for creating a joint venture that would invest more than \$20 billion in the area. The Junin 6 block has the potential to produce 400,000 bpd of heavy crude, according to PDVSA. Russian companies involved in the deal include **Lukoil**, **Gazprom**, **Rosneft**, **TNK-BP** and **Surgutneftegaz**.

Argentine Oil Workers End Strike After 19 Days

Oil workers in Argentina's Santa Cruz province have ended a 19-day strike after the government ordered oil companies to

pay workers for time spent striking, a spokesman for oil company **YPF** told Reuters Wednesday. The oil workers, who had initially demanded a 25 percent pay increase, later accepted a 20 percent wage hike, but continued to demand payment for days on strike. "This wasn't a deal, it was a Labor Ministry resolution," the YPF spokesman told Reuters. The strike hurt provincial government revenues through the loss of royalties totaling millions of dollars. Other companies affected by the work stoppage include Argentina's **Pan American Energy** and Brazil's **Petrobras**.

Power Sector News

Brazil Electricity Consumption Recovering, Still Below 2008 Levels

Electricity consumption in Brazil rose in July, but still remains below 2008 levels due to the economic downturn, which has curbed industrial consumption, a Brazilian government agency said Tuesday. Nationwide power consumption totaled 31,632 gigawatt hours, down 2.8

percent from last year. "Industry remains the sector responsible for the downturn in consumption in the country," Brazil's Energy Research Agency said in a monthly report. Industrial consumption was down 10.4 percent over the same period a year ago but showed a 3 percent increase in comparison to June. "It is expected that this dynamic of recovery will continue in the second semester," the agency said. Residential and commercial consumption both rose during July, which was partly attributable to an expansion of the consumer base. Last month, the agency predicted electricity consumption in Brazil would decline between 0.5 and 1 percent this year from 2008 levels.

Biofuels News

Kessel: Mexico to Ramp Up Ethanol Mixing Program

Mexico is looking to increase ethanol blending in major cities across the nation, Mexican Secretary of Energy Georgina Kessel said Tuesday. Speaking before the national CNC rural federation, Kessel said starting in September, **Pemex** will seek to acquire 176 million liters of ethanol annually to be mixed into gasoline sold in the Guadalajara metropolitan area, according to a press release. "I am convinced that biofuels are a real opportunity for the energy diversification of our country, which is why I invite you to be part of this process of transforming Mexico's energy sector," Kessel said. The decision was taken following the completion of a pilot program, which mixed 151,600 liters of anhydric ethanol into the gasoline supply in Monterrey. Once the program in Guadalajara gets under way, the expansion of ethanol use to Monterrey and Mexico City would represent an additional ethanol demand of 626 million liters annually, according to government estimates. Kessel added that ethanol produc-



Kessel

File Photo: Energy Secretariat.

tion in Mexico does not represent a risk to the country's food security. In addition, she said Pemex will implement a fixed-price scheme for ammonia, an ingredient of fertilizer, as a result of last year's energy reforms. The move will guarantee a steady supply and lower the cost of fertilizer for the agricultural sector, she said.

Political News

OAS' Insulza Maintains Hope for Breaking Honduras Impasse

Organization of American States Secretary General Jose Miguel Insulza said Wednesday that he maintains hope for solving Honduras' political crisis, even after an OAS delegation left the Central American country without breaking the impasse, the Associated Press reported. Insulza and the foreign ministers of seven countries held two days of meetings in Tegucigalpa, but did not succeed in convincing Honduras' de facto government to allow deposed President Manuel Zelaya to return to office. "There's still a climate for making one final effort," Insulza told a meeting of the OAS Wednesday in Washington. Insulza, who met in



Insulza

Photo: OAS.

Tegucigalpa with de facto President Roberto Micheletti and other members of his government, said officials were more interested in talking about the lead-up to the June 28 coup than in the so-called San Jose Accord, which calls in part for returning Zelaya to power. Micheletti remained firm that Zelaya would not return to power, though he acknowledged Honduras would face consequences for refusing to reinstate him. He said only an armed struggle would change the current

By the Numbers

A Look at Latin American Data by the Dialogue's Claudio Loser

Data Paints Troublesome Picture for Latin American Growth



WASHINGTON—The peak of the summer vacation is not the best time to burden my patient readers with heavy statistical material or complex discussions. However, we cannot forget what is happening in our troubled and promising region. Thus, I just want to present a few simple tables and a chart that Drew Arnold, a Georgetown University student working with Centennial Group, where I am president, and I have worked on in recent weeks. The data are part of a project commissioned by the Andean Development Corporation about the prospects of our Latin America in the next 20 years. While the chart and tables are only inputs based on available information, they present a troublesome picture about the prospects for sustained growth in the region. Just their observation suggests that the task ahead is difficult, even if the prospects for coming out from the current recession are much better than in the past.

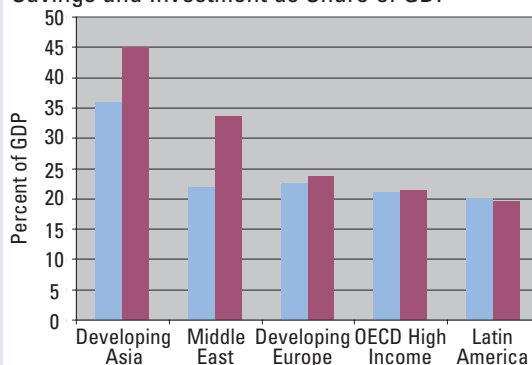
The chart and tables show a laggard region in savings and investment, infrastructure, quality of education, competitiveness and ease of doing business, as well as in other areas not shown here, like technology, financial and overall economic resiliency. The lesson, unfortunately, is that the region has done its homework on macro-management, as the current crisis shows. However, if Latin America wants to prosper, we need to make much more intense efforts to solve our secular problems, and break away from our "middle-income trap." And in order to think about that, we cannot afford to take a full summer break.

Also, one correction: In my [last column](#), I predicted that the Argentine government would be defeated soundly in congressional elections, and that this would not be the

Continued on page 5

Investing in the Future?

Savings and Investment as Share of GDP



Source: World Bank; WDI

Latin America Lagging

Quality of Education (2008 Index)

OECD High Income	5.0
Developing Europe	3.8
Developing Asia	3.7
Middle East	3.7
Latin America	2.8

Quality of Infrastructure (2008 Index)

OECD High Income	5.6
Middle East	4.4
Developing Europe	3.5
Developing Asia	3.4
Latin America	3.1

Competitiveness (2008-2009 Index)

Developing Europe	4.7
OECD High Income	4.5
Developing Asia	4.5
Latin America	4.4
Middle East	4.2

Ease of Doing Business (2009 Average Rank)

OECD High Income	25
Developing Europe	60
Middle East	82
Developing Asia	93
Latin America	103

Source: Author's estimates based on World Economic Forum and World Bank data.

situation. This week, the United States stopped issuing nearly all visas at its embassy in the Honduran capital. Lew Amselem, the United States' OAS representative said the move was a sign that "it is never acceptable in the 21st century to expel a sitting president from a country." He added, "nothing changes the fact that a president was forcibly deposed and exiled." Supporters of the Micheletti government maintain that Zelaya's ouster was legal because it was ordered by the Supreme Court. They argue Zelaya acted illegally by calling a referendum to gauge support for amending the Constitution, a move seen by his critics as an effort toward getting re-elected.

Lula Calls Obama About Colombia Bases, Upcoming Unasur Meeting

Brazilian President Luiz Inacio Lula da Silva last Friday told US President Barack Obama in a telephone call that Brazil would seek guarantees an increased US military presence in Colombia would not affect neighboring countries, reported state news agency Agencia Brasil. Lula also asked Obama to attend an upcoming meeting of the Union of South American Nations on Aug. 28 to discuss the controversial military deal, which would give US troops greater access to Colombian bases, Foreign Minister Celso Amorim told the news agency. In related news, Venezuelan President Hugo Chavez on Tuesday told his foreign minister to be ready to cut ties with Colombia over the military deal. The Venezuelan president recalled his ambassador from Colombia on July 28, but later sent him back to Bogota. Chavez has also said he wants to reduce trade ties with Colombia. [Editor's note: See Q&A on Colombia-Venezuela trade flows in the Aug. 19 [issue](#) of the daily *Advisor*.]

By the Numbers

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case in Mexico. I was only half right (about Argentina), while I partially missed the mark for the other half (about Mexico). President Calderon's popularity did not extend to members of his party in Mexico's Congress, while in Argentina voters' lack of trust was much more general. Of course, this should not be seen as an ex-post explanation but as an apology for my simplistic projection.

Claudio Loser is a senior fellow at the Inter-American Dialogue and former head of the Western Hemisphere Department at the International Monetary Fund.

Economic News

Mexico's Unemployment Rate Reaches Record High

Mexico's unemployment rate in July increased to 6.12 percent, the highest level since the country's national statistics agency, INEGI, began keeping track of the figure in 2000, the agency said Wednesday. The level marks the first time since then that the jobless rate has edged above 6 percent, Bloomberg News reported. In June, the unemployment rate stood at 5.17 percent. This year, slumping industrial production and consumer confidence will take a toll on Mexico's job market, the Organization for Economic Cooperation and Development said last month. This year, Mexico's economy will contract as much as 7.5 percent, the sharpest contraction since 1932, the country's central bank said last week.

Argentina Farmers to Stop Some Grain, Beef Sales

Argentine farmers will halt sales of some products after the government vetoed tax breaks for areas worst affected by a catastrophic drought earlier this year, Bloomberg News reported Wednesday. Farm group leader Carlos Garetto said producers will halt some grain and beef sales from Aug 28 to Sept. 4, according to the report. The administration of President Cristina Fernandez rejected parts of the bill that would have given tax breaks or exemptions for six months to farmers in southern Buenos Aires province. Cabinet Chief Anibal Fernandez criticized the strike, saying it lacked a clear objective, Reuters reported. He added that the government remains open to dialogue.

POLITICAL & ECONOMIC BRIEFS

Argentina Announces Bond Swap

Argentine Economy Minister Amado Boudou said last Friday the country would swap 9 billion pesos (\$US 2.3 billion) worth of short-term, inflation-linked bonds for notes expiring in 2014. "With this measure we're taking another small step in Argentina's return to financial markets," Boudou said in the statement. The country has been largely closed off from financial markets after it defaulted on \$80 billion of debt in 2002.

Correa Taps Foreign Reserves to Boost Ecuador's Economy

Ecuadorian President Rafael Correa on Wednesday approved measures intended to boost public finances and spend a portion of Ecuador's foreign reserves in an effort to stimulate the economy, Bloomberg News reported. Correa signed a bill that would raise a tax on money sent abroad from 1 percent to 2 percent and spend \$1.6 billion from the country's foreign reserves on infrastructure projects. Correa also said Ecuador's economy is now expected to grow less than 2 percent in 2009.

Peru to Start FTA Negotiations With Central America in 2010

Peru hopes to begin negotiations on a free trade agreement with Central America by the middle of 2010, the country's trade minister said late Tuesday. Following a meeting with his Costa Rican counterpart, Martin Perez said the negotiations were likely to occur after Peru has finished negotiating FTAs with the European Union, Japan and South Korea, according to a ministry press release. Perez said Peruvian exports to Costa Rica grew 31 percent in the year's first half.

Featured Q&A*Continued from page 1*

tion. The new gas law, as well as the development of the pre-salt areas, may contribute to lessening Brazil's dependence on Bolivian gas, although the possibility of changing the existing and successful concession regime for E&P projects under the Brazilian petroleum law may delay new drilling projects in the pre-salt area. LNG could play a larger role in Brazil's gas market as an alternative way to import or transport gas. Currently, Petrobras operates two re-gasification terminals (Port of Pecem and Guanabara Bay), while a Petrobras-Praxair joint venture operates a liquefaction plant in Sao Paulo state. In addition, Gas Energy New Ventures has announced plans to build a re-gasification terminal in the state of Rio Grande do Sul."

A Felipe A. Dias, economist at the Brazilian Petroleum Institute in Rio de Janeiro: "The Brazilian natural gas regulatory framework had been questioned by almost all important players in the industry, including some government bodies, for quite some time. Since the early 2000s there was a general perception that the current petroleum law, from 1997, was mainly designed for the opening of upstream activities and was not adequate to face regulatory challenges of downstream segments, especially natural gas pipeline transportation and distribution. During 2007-2008, Brazil faced increasing threats of shortage of natural gas supply. In addition, political turmoil in Bolivia and the Argentine energy crisis reduced the possibilities of imported supply for Brazil and drove the Congress to intensify discussion of the new legislation. Even in this situation, it took three years for Congress to approve the new natural gas law. The new law has introduced a few important new concepts, in particular the bidding process and the concession model for new long-distance transportation pipelines. The current authorization process implies an enormous commer-

cial risk to investors in new pipelines, which is a central barrier to entry, and only reinforces the vertical structure and highly concentrated market. However, the new gas law is widely seen as not having progressed much on the construction of a solid regulatory framework that would enable the development of a more competitive market, especially by removing some of the obstacles to new investors. A main reason for this is the complex and unbalanced negotiation process. The contradictory position and the power of the main players to influence or stop the political process make it nearly impossible to advance any regulatory framework that would imply a structural change from the current situation."

A Carlos Miranda, energy consultant in La Paz and former hydrocarbons superintendent of Bolivia: "Due to the global economic crisis, demand for gas in Brazil is depressed. When the situation returns to normal, Bolivian gas will again be indispensable to Brazil. The vast pre-salt reserves won't enter the market until 2014 or 2015. Even then, they won't displace Bolivian gas, but rather complement it to meet Brazilian demand. In the medium term, after 2020, Bolivian gas will continue to be strategically and economically more convenient for Brazil. Gas production costs in Bolivia are lower than in Brazil and Bolivian gas can be transported at a lower cost, which means lower prices for the consumer. Geopolitically, it doesn't make sense for Brazil not to buy gas from a neighbor with abundant gas reserves and transportation infrastructure to supply Brazilian markets. For this reason, Petrobras has paid YPFB transportation rates for 40 years."

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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Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Matthew Schewel

Reporter, Assistant Editor
mschewel@thedialogue.org

Inter-American Dialogue:**Peter Hakim**

President

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Jeffrey M. Puryear

Vice President, Social Policy

Viron Vaky

Senior Fellow

Subscription inquiries are welcomed at
freetrial@thedialogue.org

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