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LATIN AMERICA ADVISOR | Energy

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Featured Q&A *with the Energy Board of Advisors*

Q After meetings with Argentine President Nestor Kirchner last week, Venezuelan President Hugo Chavez vowed to help build a natural gas pipeline from Venezuela and Argentina. Do you think the pipeline, which could serve as a foundation for a South American natural gas pipeline network, will be built? What are some obstacles to the project? What impact would it have on Southern Cone energy markets?

A Guest Comment: Michelle Foss: "It depends on the details. There already is a South American gas pipe network, but issues in Argentina that led to abrogation of supply contracts and the interminable geopolitics surrounding Bolivia's role, or not, as a major supplier continue to interfere. Obstacles include Brazil (why would Petrobras support a competing pipeline?), commodity prices (will Chavez continue to have the financial resources to anchor this adventure?), terrain and cost (daunting), and lack of a clear imperative from a customer point of view. Impact on Southern Cone markets could range from new momentum for competitive markets to creation of a gas 'sink'."

A Board Comment: Roger Tissot: "President Chavez's regional projects are driven mostly by political motivations, aimed at strengthening regional energy integration and diversification of Venezuela from US political and economic dependency. Some of these projects also respond to market realities and are likely to go ahead. Others may not pass the market test. A gas pipeline from Venezuela to Argentina is one of them. First, a 6,000-km pipeline is too long, and at such distances LNG would become a viable competitor. Second, Brazil is expected to find substantial gas reserves, which in addition to supplying its domestic market can be used for LNG exports. Third, Bolivia will not stay idle

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PHOTO OF THE WEEK

Roberto Lavagna resigned as Argentina's economy ministry on Monday. See related story on page 4.

Photo: economy ministry.

Inside This Issue

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ENERGY SECTOR BRIEFS

Gaz de France Sells Stake in Gaseba Uruguay to Petrobras

Paris-based **Gaz de France** said Friday it has agreed to sell its 51 percent stake in **Gaseba Uruguay** to Brazil's state owned Petrobras. Petrobras will pay $12.8 million for the shares, including a $1.8 million shareholder loan held by Gaz de France, according to the release. Gaseba Uruguay holds the concession for the distribution of natural gas in the province of Montevideo, with approximately 1.4 million inhabitants, through 2025, according to Petrobras.

Source: company statement.

PDVSA to Start Work on Colombia-Venezuela Pipeline

State-owned **Petroleos de Venezuela** (PDVSA) will get to work during the first half of next year on a natural gas pipeline connecting Colombia and Venezuela, PDVSA President and Venezuelan Energy Minister Rafael Ramirez said last Thursday. The announcement came after Venezuelan President Hugo Chavez and his Colombian counterpart, Alvaro Uribe, signed an energy cooperation agreement. The pipeline, which will extend from Colombia's Puerto Ballena to Lake Maracaibo in Venezuela, should be completed within two years, Ramirez said.

Source: company statement.

Petrobras Declares Oil Field Commercially Viable

Brazil's state-owned **Petrobras** announced Monday that the Inhambu heavy oil field in the state of Espirito Santos is commercially viable. Petrobras said it now plans to undertake a development plan for the field, during which it will determine the amount of reserves.

Source: company statement.

Oil & Gas News

Mexico Approves Pipeline Deal with Arizona Energy Firm

Phoenix-based **Arizona Clean Fuels Yuma** (ACFY) announced Wednesday that it has reached an understanding with Mexico's energy ministry allowing the company to move ahead with plans for a $2.5 billion pipeline project to deliver "company-owned crude oil" in Mexico to the ACFY refinery planned for Yuma County, Arizona. The distinction between "company-owned" crude and Mexican oil is critical to the deal because Mexico's Constitution has banned foreign firms from upstream oil and gas activities since 1938. According to reports, ACFY will buy Mexican Heavy Maya crude in southern Mexico, load it onto boats, and then ship it to the mouth of the proposed pipeline "receiving point," to be located in either Baja California or Sonora, Mexico. Company spokesman David Treanor, who led the negotiations in Mexico, stated that the project is "a symbol of cross-border collaboration that will result in significant bi-national benefits." **WesPac Pipelines** will finance, construct, operate, and maintain a crude oil supply system, which will consist of a marine offloading facility, origin terminal tank farm, and a pipeline to supply the refinery, according to an ACFY release. WesPac is in the initial stages of permitting the crude oil transportation system in both Mexico and Arizona, and is currently in discussions with **Techint Mexico** regarding a contract for engineering, procurement and construction of the pipeline project.

> ***The distinction between "company-owned" crude and Mexican oil is critical to the deal because Mexico's Constitution has banned foreign firms from upstream oil and gas activities since 1938.***

Bridas Corp. May Be Selling Oil & Gas Assets, Report Says

Argentine energy producer **Bridas Corp.** is selling oil and gas assets worth about $5 billion, people familiar with the matter told Reuters on Monday. Bridas has oil and gas interests in South America's Southern Cone and across Central Asia, and holds a 40 percent stake in **Pan American Energy**, Argentina's second-largest oil and gas producer after **Repsol-YPF**. It was not immediately clear whether Bridas' controlling stakeholder, the Bulgheroni family, was selling the 40 percent stake in Pan American, or a stake in Bridas, according to Reuters, which cited an estimated value of the sale at $5 billion. **China National Petroleum** is reportedly interested in acquiring the assets, Reuters reported.

Mexican Lawmaker Proposing Relief Fund for Oil-Related Disasters

A Mexican lawmaker is calling for the creation of a special relief fund to help local communities hurt by oil-related accidents at state-owned Pemex, local daily *El Universal* reported on Sunday. Federico Madrazo Rojas, a member of the lower chamber of deputies from the opposition PRI party, said his proposal for a Contingency Fund for Petroleum Disasters would make funds available to cities and towns affected by oil spills, fires, and explosions involving Pemex infrastructure. Existing compensation mechanisms are inefficient, untimely, discriminatory, and tend to only make things worse, Madrazo said. Existing legislation only allows Pemex to compensate state governments in the event of such accidents, according to *El Universal*. Creation of a special fund is especially necessary given Pemex's aging infrastructure in some areas, Madrazo asserted. For example, he said, 11 cities and towns in the state of

Madrazo Rojas
Photo: Mexican Congress.

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Tabasco were at risk of an oil accident-related disaster from 10 kilometers of underground Pemex pipeline, lengths of which are 20-25 years old. Between 1997 and 2001, 57 percent of the 2,592 environmental emergencies that took place in Mexico took place at Pemex installations, Madrazo said. Earlier this month, Mexico's Congress passed legislation lowering taxes on **Pemex**, which badly needs the tax savings for new investments in infrastructure and exploration to maintain and increase production.

BNDES Approves Financing for Amazon Pipeline Project

The board of Brazil's state-run development bank, BNDES, has approved a one-year, 800 million-real ($US 366 million) loan to finance the construction of two natural gas pipelines in the country's Amazon region, the bank said on Monday. In a press release, BNDES said it approved the loan for the construction of a pipeline to carry gas from the Urucu gas fields, located in a remote rainforest region, to the city of Manaus, the capital of Amazonas state, and another connecting Urucu to the town of Coari. BNDES said the pipeline construction project, the total cost of which is estimated at 1.44 billion reais, would create 37,000 direct and indirect jobs. The pipelines would provide Manaus and surrounding areas a cheaper and more environmentally friendly alternative to diesel fuel, BNDES said. Environmentalists, however, have expressed concerns that the pipeline project will damage pristine Amazon rainforest areas and harm isolated Indian communities.

Board Member Profile

The **Energy Advisor** *is pleased to profile a different member of its Board of Advisors in each issue. Subscribers can pose questions to the Board by contacting Robert Simpson at rsimpson@thedialogue.org.*

Doris Rodriguez, Partner at Andrews Kurth LLP.

Doris Rodriguez

Based in Houston, Doris Rodriguez has represented Latin American and domestic companies in energy sector transactions throughout her career.

Rodriguez was directly involved with the international legal counsel teams in the privatizations of **YPF, S.A.**, the former state-owned Argentine oil and gas company, and **PETROPERU**, the former state-owned Peruvian oil and gas company.

She has worked in Argentina, Chile, Colombia, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, and Venezuela. She currently represents a major international oil services company with respect to all of its financings, including corporate credit transactions and structured finance transactions. Rodriguez also recently represented a major United States power producer in the sale of its interest in a power plant located in Mexico to a Spanish electric utility. She has advised clients concerning electric power plant projects in Ecuador and in Argentina. In addition, Rodriguez has counseled a major US mining company regarding a coal mining project in Venezuela.

Rodriguez joined Andrews Kurth in 2001 and was previously the head of **LeBoeuf, Lamb, Greene & McRae**'s Latin America Practice and co-managing partner of LeBoeuf's Houston office. She was previously with Andrews Kurth in the Houston office from 1980-1998 and became partner in 1988, at which time she became the first Hispanic woman elected partner of a major Houston law firm.

She holds her JD from the University of Houston Law Center, *cum laude*, where she was editor of the *Houston Law Review* from 1979 until 1980. She received her BA from the University of Houston, *summa cum laude*.

Power Sector News

Grupo Dolphin Buying Employee Shares of Argentina's Edenor

Argentine fund manager **Grupo Dolphin** said November 22 it was making a public offer for 10 percent of Argentina's largest electricity distributor, **Edenor**, from Edenor's employees, Reuters reported. In June, Dolphin bought a 65 percent stake in Edenor from **Electricite de France** (EDF) for $100 million. When it made that deal, Dolphin said it would make the same offer to buy employee shares. EDF still owns the other 25 percent. Dolphin is privately held and run by Marcelo Mindlin, a former executive at real estate giant **IRSA Inversiones y Representaciones**. Edenor distributes electricity to parts of the capital and greater Buenos Aires province with about 2.2 million customers. In the first nine months of this year, the company reported a loss of 49.1 million pesos ($US 16.4 million), compared with a loss a year earlier of 75.4 million pesos. Edenor and other Argentine utilities have been battling the government over rate freezes and fines that have been imposed over blackouts. At the beginning of 2005, the government fined three local utilities a combined 1 million pesos for blackouts in January and another 12 million pesos for not making investments needed to keep up with growing demand, according to Reuters. Last week, as this summer season's harshest heat wave drove demand for electricity beyond capacity, more blackouts across Argentina occurred. A planning ministry official told Reuters last week that new fines would be issued over the most recent blackouts, but no figures were cited in the report.

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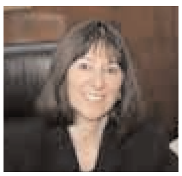
Economic News

Kirchner Names New Economy Minister After Lavagna Steps Down

Argentine President Nestor Kirchner on Monday appointed a political ally as economy minister to replace Roberto Lavagna, whom the president asked to resign amid disagreements over economic policy. Kirchner named Felisa Miceli, president of state-owned **Banco de la Nacion Argentina**—Argentina's biggest bank—to become the country's first female economy minister. Bond and stock prices, as well as the currency fell on the news, as analysts pointed to the risk involved in Kirchner's decision to remove Lavagna, who was considered a pragmatic and independent voice in the Kirchner government. Argentina's benchmark MerVal stock index closed almost 4.5 percent lower while the peso weakened 0.42 percent to end at 2.9975/3.00 pesos to the dollar, according to Reuters. On **JP Morgan**'s Emerging Markets Bond Index Plus, Argentina's risk spreads widened 10 basis points to 364 points. Analysts say they do not expect major policy changes under Miceli, although they say her appointment will likely give Kirchner a stronger voice in fiscal and economic matters. "Miceli is a disappointing replacement to the extent that she is likely to exercise a passive role as economy minister," JP Morgan's Vladimir Werning wrote in a research note published this morning. Lavagna, who headed the ministry since April 2002 following the country's default and devaluation at the end of 2001, oversaw the nation's restructuring of more than $100 billion of debt earlier this year. Lavagna helped keep the budget in surplus as Kirchner urged more spending and took a tough stance with creditors and the International Monetary Fund. However, serious policy disagreements developed between Kirchner and Lavagna, with Lavagna reportedly advocating greater flexibility on such issues as frozen utility rates, a new agreement with the IMF, and measures to stem inflation. Inflation is rising this year at an average of almost one percent per month, and the Central Bank expects that it will finish the year in double figures. Lavagna's entire economic team resigned, including Finance Secretary Guillermo Nielsen. Lavagna's departure was part of a broader cabinet reshuffle announced Monday morning, including the replacement of Foreign Minister Rafael Bielsa with the deputy foreign minister, Jorge Taiana, and the appointment of Nilda Garre, Argentina's ambassador to Venezuela, as defense minister.



Felisa Miceli
Photo: Banco de la Nacion Argentina

The Dialogue Continues

A continuation of the November 22, 2005 Q&A

Q The government of caretaker President Eduardo Rodriguez in Bolivia failed to meet a November 15 deadline to renegotiate contracts with multinational oil and gas companies, putting the next government on a possible collision course with the multinationals, which are threatening to take their case to international arbitration if the government does not agree to reduce taxes. Do you see a resolution before the next government takes office early next year? How strong a case would the multinationals have in international arbitration court? How heavy does the threat of arbitration weigh on the Bolivian government?

A Guest Comment: Iván Rebolledo: "Although President Rodriguez made the renegotiations of contracts one of the cornerstones of his short term in office, as well as appointing a former minister of economic development, Xavier Nogales, as his private emissary to dialogue/negotiate with the hydrocarbon companies, and having just appointed his third minister of energy within six months—all this has proved unattainable and unsuccessful. Exxon Mobil, Repsol YPF, BG Group, BP, Total, and others are demanding that the government respect existing bilateral investment protection agreements and will more than likely take their cases to international arbitration—where they will have good cause for reimbursement and a ruling in their favor. For now, they are paying—under protest—the new, higher tax imposed by Congress in May. These extra funds are being channeled into the national Treasury and are helping to bring down Bolivia's fiscal deficit. Without a doubt, Bolivia's next government will be tasked with renegotiating contracts with foreign hydrocarbon companies, since the recent deadline was not met. These delicate negotiations might be left to Evo Morales (MAS), a leading candidate in the race for the presidency on December 18. Morales has vowed to take a tougher position with the foreign direct investment community, including more punitive changes to existing contracts and even nationalizing the hydrocarbons industry. If it is not his administration directly, then it might be called for by the new constituent assembly, which will be tasked to write a new Constitution in 2006."

Iván Rebolledo *is President of the Bolivian-American Chamber of Commerce.*

Latest EU Banana Tariff Proposal Rejected by Latin America

European Union governments on Friday agreed to a new, lower tariff on banana

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imports of 176 euros ($US 207) per ton, but Latin American countries said the tariff is still not low enough, according to Reuters. It was the third tariff proposal by the EU, whose first two proposals of 230 euros and 187 euros per ton were rejected by World Trade Organization arbitration panels as discriminating against Latin American suppliers. Latin American countries, led by Ecuador, the world's biggest banana exporter, have challenged the EU's import regime for bananas amid fears they will lose market share when the EU transitions from a quota system to a tariff-based system at the start of next year. They are demanding a duty of no more than 75 euros per ton. Former European colonies in Africa, the Caribbean, and Pacific currently enjoy preferential treatment for their banana exports and claim that easier access to the European Union for Latin American bananas would harm their smaller-scale producers. Last month, officials from Caribbean banana-growing countries reacted with dismay and disappointment after the WTO struck down the EU's proposed 187 euro per ton tariff, and some officials even questioned the value of WTO membership in light of the ruling. [Editor's note: see a related Q&A in the August 11, 2005 issue of the daily *Latin America Advisor.*]

Political News

Uribe Declares His Candidacy in Colombia's May Presidential Election

Colombian President Alvaro Uribe formally declared on Sunday that he would seek re-election in next May's presidential vote, vowing to consolidate security gains, reduce poverty, and fight corruption while respecting democracy. "Democratic security and social policy go hand in hand," Uribe said in a speech, the text of which was posted on the presidential Web site. "Security provides the trust, the investment, and resources for social policy, and as this progresses, it obtains the supports of [popular] opinion so that security is sustainable." During the past two months, Colombia's Constitutional Court has okayed legislation passed last year that lifts the ban on consecutive presidential terms and establishes campaign rules for sitting presidents seeking re-election. However, the Court imposed some restrictions on the popular Uribe's presidential re-election campaign, limiting his ability to use state funds and institutions to promote his candidacy and prohibiting him from using the presidential palace as his campaign headquarters or have his speeches broadcast on the state's official television channel. In his speech on Sunday, Uribe gave assurances that he would not abuse his power in order to hold onto office. "The government over which I preside has a responsibility to establish a historic precedent, so that the institution of presidential re-election serves to deepen democracy [and] gives the people full faith in their capacity to define the destiny of the country," Uribe stated. Under election rules, he cannot start officially campaigning until January 28. Early polls indicate Uribe, whose approval ratings hover at around 70 percent amid a steep decline in violence and kidnappings during his administration, would easily win the election. Critics of presidential re-election fear it would give the presidency too much power *vis-a-vis* the other branches of government.

Honduran Opposition Candidate Declares Presidential Victory

Honduras' governing National Party on Monday accused an electoral official of prematurely declaring the opposition candidate the winner of the country's presidential election on Sunday and demanded a vote recount, the Associated Press reported. Supreme Electoral Tribunal President Aristides Mejia on Sunday declared Manuel Zelaya of the opposition Liberal Party the winner after the Tribunal reported that Zelaya had won 50.8 percent of the vote to the National Party's Porfirio Lobo Sosa's 45.2 percent. However, the Tribunal did not say what percentage of the total votes had been counted, and Lobo Sosa is refusing to accept the results. "I'm going to defend the right of my people to have their votes


Zelaya
Photo: candidate's Web site.

POLITICAL & ECONOMIC BRIEFS

Venezuela Signs Arms Deal with Spain Today Despite US Concerns

Spain and Venezuela on Monday signed a deal for the sale of $1.56 billion worth of Spanish military equipment to Venezuela, despite objections by the United States. Venezuelan President Hugo Chavez on Sunday applauded Spain's decision to "[resist] the imperial government's attempt to trample over them" and go through with the sale. Venezuela says the purchase of the four coastal patrol ships, four corvettes, 10 transport planes, and two maritime surveillance planes is part of a program to modernize its armed forces. The US ambassador to Spain expressed concern last week "that the sale could be a destabilizing factor" in Latin America.

Source: ABN, Reuters.

Pinochet Under House Arrest

Former Chilean dictator Augusto Pinochet spent his 90th birthday on Friday under house arrest after he was charged the day before for having a role in the disappearance of seven government opponents in 1974. Pinochet also faces charges of tax fraud, forging passports and documents, and incomplete asset reporting related to an estimated $27 million hidden in foreign banks.

Source: Reuters.

Colombian Economy Expanded 4.5 Percent in Third Quarter

Colombia's economy grew 4.5 percent in the third quarter compared to the same three months a year ago, the government's national statistics department, DANE, said last Tuesday. DANE said foreign investment could exceed $6 billion in 2005, helping push growth for this year to 4.5 percent.

Source: Reuters.

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Featured Q&A
Continued from page 1

losing additional markets, particularly when the country's economic lifeline depends on the use of B2B and gas exports to Argentina. The project would also imply significant environmental challenges, as it crosses sensitive Amazon rainforests. In short, this project may be another of President Chavez's efforts to grab newspaper headlines."

A **Guest Comment: Ted Izatt:** "The proposed pipeline is possible from a technological standpoint, and it could serve as an important part of a South American energy grid. However, there are significant hurdles that suggest a pipeline of this magnitude will not be built for more than a decade, if ever. With large untapped natural gas and oil reserves in Argentina and in many of the countries that the pipeline would likely pass through, the economic justification for the pipeline is marginal absent substantial demand increases in the region. Furthermore, the economics would be further hurt by challenging terrain, including mountains and the rainforests, and the need to protect against adverse ecological consequences. Even if a pipeline as proposed could be justified on economic grounds, political hurdles could be difficult to overcome. Depending on the path chosen, the pipeline will involve a minimum of three countries and numerous local communities. While Chavez is dreaming of a regional energy system and may be willing to make compromises in terms of the economics to Venezuela to achieve his political goals, we believe other countries in the region will be much more sensitive to their domestic political needs. Given the economic, environmental, and political hurdles involved, it could well be some time before the pipeline is built and there will be minimal impact on global energy supply and demand fundamentals. Development of the South American energy grid will likely occur from incremental projects that are based on fundamental economics, rather than grandiose visions."

> "... There are significant hurdles that suggest a pipeline of this magnitude will not be built for more than a decade, if ever."
>
> ***– Ted Izatt***

Michelle Foss *is Chief Energy Economist and Head of the Center for Energy Economics at the University of Texas at Austin.*

Roger Tissot *is a member of the* Energy Advisor *board and Director of the Markets & Countries Group at PFC Energy.*

Ted Izatt *is a Managing Director at Bear Stearns.*

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counted," he told hundreds of supporters at National Party headquarters. In a statement Monday evening, outgoing President Ricardo Maduro appealed for "calm, peace and order," and urged both parties to "be prudent when it comes to making statements, and wait for the results of all the balloting." Amid rampant gang-related crime in Honduras, Lobo Sosa, a former leftist turned hardline conservative, promised during his campaign to reinstate the death penalty for "abominable crimes" including sexual assault, kidnapping, and murder. Honduras abolished the death penalty in 1937. Zelaya, who has proposed life imprisonment, campaigned on an anti-corruption platform. Both candidates are wealthy landowners and support a free trade agreement with the US.

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