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Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting rsimpson@thedialogue.org

Featured Q&A with the Energy Board of Advisors

Q Officials from Societe Generale and TCW announced last week they were pursuing a \$680 million suit against the government of the Dominican Republic, saying they had suffered "catastrophic losses" from investments in the Caribbean nation's power sector and accusing the government of breach of contract, among other things. What impact will the suit have on the DR's power sector? Will it be a catalyst for long-awaited reforms?

A **Guest Comment: Bernardo Vega:** "This lawsuit is a result of the mistakes of the Hipolito Mejia government (2000-2004) in its handling of the electricity sector. The substantial devaluation resulting from the way it managed the fraudulent debacle of Banco Intercontinental caused a big increase in costs for the electric sector, which depends on imported fuels. The resulting increase in electric tariffs made collection of electricity bills very difficult. The two distributing companies owned by Union Fenosa solved this problem by 'convincing' the Mejia government to nationalize them, through a very generous guaranteed payment scheme. The third distributing company, owned by AES, an American company, was unable to secure such an 'easy' way out and sold its shares, at a big loss, to an investment group (which includes Societe Generale), which then hired AES to manage the company.

When this happened, the alleged breaches of contract already were occurring. Since then, losses have continued despite subsidies by the Dominican government to the three distributors. As the entry-into-force date for the DR-CAFTA agreement (which includes investment guarantee clauses) was approaching, Societe Generale and other shareholders, some American, decided to sue the government. We expect this to be a long lawsuit. If anything, it should stimulate the government to pass the management of the two government-owned distributors to private groups. Today, their payrolls include excess personnel hired for political patronage."

Q&A continued on page 6

PHOTO OF THE WEEK



Chinese government official Li Chang Chun (r) and Venezuelan President Hugo Chavez (l) signed joint accords Monday. See story on page 2.

Photo: Venezuelan presidency.

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ENERGY SECTOR BRIEFS

Bachelet Names New Chilean Energy, Environment Ministers

President Michelle Bachelet named Marcelo Tokman as Chile's new energy minister on Tuesday. The government decided to split the mining and energy sectors within the cabinet, which were formerly handled together by Karen Poniachik at the ministry of mines and energy. Tokman, a US-trained economist, has worked since 1997 in the finance ministry on a range of issues such as health, budget, and fiscal reform.



Uriarte and Tokman

Photos: Chilean gov't.

Bachelet also created a new environment ministry, which will be run by Ana Lya Uriarte Rodriguez, a lawyer who has led work on environmental health issues for the government. Uriarte was last year named executive director of CONAMA, Chile's national commission on the environment.

Argentina Ends Oil Agreement with UK in Falkland Islands

Argentine Foreign Minister Jorge Taiana said Tuesday that his country has ended an oil exploration agreement with Great Britain in the Falkland Islands—called the Malvinas Islands in Argentina—just days before the South American nation commemorates the 25th anniversary of a war with the British over the territory, Reuters reported.

Fugro-Jason Opens New Office in Maracaibo, Venezuela

Houston-based oil and gas reservoir technology firm **Fugro-Jason** said this week it is opening a new office in Maracaibo, Venezuela to support ongoing and future projects throughout the country.

Oil & Gas News

Venezuela and China Announce Plans for Joint Ventures, \$6 Billion Fund

In an effort to diversify its oil exports away from the US market, Venezuela this week announced plans to start joint ventures with state-owned **China National Petroleum Corp.** to expand exploration and production, build three oil refineries, and start a joint shipping company, the Associated Press reported. The refineries, to be built within two to three years, will process 800,000 barrels per day, Venezuelan President Hugo Chavez said.

Monday, citing a local press report. The deal has potentially wide-ranging implications for consolidation of the Brazilian petrochemical sector. Petrobras has launched an internal investigation based on transaction information detailed by the country's securities regulator, according to the report. [See related story on page 2 in [last week's edition of the Energy Advisor.](#)]

PDVSA to Sell as Much as \$5 Billion in Debt to Finance Output Growth

Venezuelan state-owned oil and gas company **PDVSA** will sell as much as \$5 billion of bonds to finance an expansion in output, Bloomberg News reported on Thursday, citing PDVSA President Rafael

“As a power, the United States is going down, while China is moving up.”

— Hugo Chavez

"As a power, the United States is going down, while China is moving up," he said. Venezuela hopes to be exporting about 45 percent of its oil to Asia within the next five years, compared to 15 percent of shipments today. On Monday, political leaders from the two countries also announced plans to launch a \$6 billion fund aimed at boosting joint projects. Venezuela will invest about \$2 billion in the fund, which will also be used to build railroads, telecommunications networks and shipyards in the South American country, while China will allocate \$4 billion, according to the Associated Press. The Venezuelan government described the [six instruments of cooperation](#) to come out of the meetings on its Web site.

Petrobras Manager May Have Done Insider Trading, Press Reports

A manager at Brazilian state-run oil firm **Petrobras** may have carried out an insider trading operation before last week's \$4 billion takeover of fuel distributor Ipiranga by Petrobras, **Braskem SA**, and **Ultrapar Participacoes**, Reuters reported on

Ramirez. Ramirez said the bonds will have maturities of 10, 20, and 30 years. The issue is part of a government plan to help the central bank absorb excess cash that's fueling rapid inflation in the South American nation, according to Bloomberg News.

Biofuels News

Lugar Introduces New Senate Bill: "US-Brazil Energy Pact of 2007"

US Sen. Richard Lugar (R-IN) on Wednesday [introduced a bill](#) that would establish cooperation between the United States and Brazil for energy security in the Western Hemisphere, biofuels production, cellulosic ethanol research, and infrastructure improvements. "Giving the United States easy access to foreign ethanol supplies, even as we increase domestic production, is an essential component to meet President Bush's target of 35 billion gallons of renewable fuels use by 2017, which cannot be met by US corn ethanol alone,"

Lugar said in a press release. The legislation calls for establishing a regional energy forum as "a standing but flexible mechanism" to advance energy issues and an



Senator Lugar
Photo: Office of
Dick Lugar.

emergency cooperation mechanism to "deter political manipulation of oil trade." It also called for feasibility studies on biofuel and biomass production potential in Latin America, as well as promotion of a carbon trading system to encourage preservation of tropical rain forests. The bill calls for seeking "ways to help optimize Mexican oil output, which is lagging to the detriment of the region, and encourage South America to exploit fully its natural gas supplies with new pipelines and liquefied natural gas facilities." Lugar is asking that \$59 million be appropriated for 2008 to

Brazilian President Luiz Inacio Lula da Silva is scheduled to be in Washington to meet with George W. Bush at Camp David this coming weekend.

implement this legislation. Brazilian President Luiz Inacio Lula da Silva is scheduled to be in Washington to meet with President George W. Bush this coming weekend at Camp David.

More Sugar Cultivation in Brazil Not a Threat to Environment—Expert

Brazil has plenty of farmland available to plant sugarcane to satisfy growing global demand for ethanol without damaging the environment, the Brazilian coordinator of the Inter-American Ethanol Commission said Monday, according to Reuters. "There's no need to cut a single tree in the Amazon rainforest either to grow food or produce ethanol," Roberto Rodrigues was quoted as saying in Rio de Janeiro at a workshop on agroenergy's environmental impact. Rodrigues, a former Brazilian agriculture minister who

Bolivia Q&A

Will Morales Run in, and Win, and Early Bolivian Election?

Q Bolivian President Evo Morales said last week that he would not compete in an early presidential election once an assembly finishes rewriting the nation's Constitution, although a spokesman later said that Morales would run if his supporters asked him to. Do you think Morales would run in the election? Would he win?

A **Guest Comment: Ivan Rebolledo:** "It is rather clear to most Bolivia followers that President Morales will most certainly run for re-election in next year's possible elections. Morales wants the Assembly to have complete and absolute powers, which would obviously allow delegates to lobby for new articles calling for new elections. In light of the president's current high approval rating of 65 percent, in spite of the recent corruption charges levied against his party and serious mistakes in the signing of new contracts with the oil sector, it is only obvious that his popularity will be used to ignite a re-election campaign. His popularity stems from broad-based support, but also because he has 'delivered' on most of his campaign promises—far more than any recent previous president. The question is at what cost, and whether his policies have further fractionalized the country. He would need to win back certain sectors of the electorate—especially cooperative miners, transport unions, and others—which he has alienated with recent policy decisions. The lack of a true opposition party or candidate(s) will also make his possible re-election process easier. The emergence of Manfred Reyes Villa, current governor of Cochabamba, on the national scene with the support of the traditional low-land (Santa Cruz) elites, could make him a contender, but he still needs to win more national 'space.' Most certainly he would use the complex issue of regional autonomies as a rallying force in these possible

advanced elections. The other emerging candidate is the mayor of Potosi, also of indigenous roots."

A **Guest Comment: Xavier Albo:** "In Bolivia, what has been printed and analyzed is the fact that there will probably be elections after the new Constitution is approved, and the possibility or probability that Evo Morales will be a candidate. It seems logical that, once a consensus is reached on a new Constitution, leaders will soon be elected who respond to the country's new structure. For this reason, the constituent assembly members should incorporate a provisional article to that end. This action may or may not coincide with each [assembly member's] immediate interests based on their political calculations. But the reason for the new elections is logical and legitimate. Given the change in structure, I don't see any strong reason why the current leadership—at the national or departmental level—couldn't present themselves as candidates. In this setting, it is normal that he who pushed the referendum for the constituent assembly, Morales, would run. In the current Bolivian environment, it is likely that he would win, although perhaps not in such a resounding way as in 2005. It wouldn't surprise me if the development of the new Constitution takes longer, given that it wasn't ready in August 2006 and has suffered setbacks as a result."

Ivan Rebolledo is the President of the Bolivian-American Chamber of Commerce.

Xavier Albo is a researcher at the Center for Research and Promotion of the Campesino (CIPCA) in Bolivia.

Editor's note: See additional comments in the [March 29 edition of the daily Latin America Advisor](#).

now heads the agribusiness center of the Getulio Vargas Foundation, said Brazil had some 90 million hectares of degraded pasture which could be used for crops, with 20 million hectares for sugarcane. Sugarcane occupies only 6 million of the 62 million hectares of Brazil's cultivated farmland, Rodrigues said. About half the cane area is used to produce ethanol and the rest for sugar. Environmental groups are concerned that a huge expansion in Brazilian sugarcane planting to produce ethanol would result in forests being cut down and savannah cleared, according to Reuters. They also worry that rivers and water supplies will be contaminated by an increase in the use of fertilizers, herbicides, and pesticides, and that air pollution will be increased due to the practice of burning sugarcane fields. Rodrigues said Brazil needed a strategic ethanol policy to cover issues such as zoning of agricultural farmland to ensure that sugarcane is planted in suitable areas. Cane burning, water supplies, ethanol credits, production mix, logistics, and labor and social issues also needed to be looked at, Rodrigues said.

Clean Energy Brazil Makes \$130 Million Sugar/Ethanol Investment

Clean Energy Brazil, a UK-based specialist investment company focused on Brazil's sugar/ethanol industry, said Tuesday it had completed its initial investment of approximately \$130 million in **Usaciga Acucar, Alcool e Energia Electrica S.A.** Since Clean Energy Brazil's (CEB) initial public stock offering in December 2006, gross initial proceeds of approximately \$200 million have now been invested in Usaciga, the company said. CEB gets a 49 percent indirect stake in Usaciga as a result of the deal, which comprises interests in a producing sugar/ethanol mill, several greenfield developments, a bulk sugar terminal, and an ethanol trading company. The company hopes that Usaciga will develop a cane crushing capacity of more than 8 million tons per year as a result of the investment. CEB's overall strategy is to build a sugar and ethanol group with operating capacity to crush up to 30 million tons of sugar cane per year.

Subscriber Notice

Inter-American Dialogue Roundtable on

Brazil: The First 100 Days of Lula's Second Administration

with

Al Fishlow

Professor, International and Public Affairs, Columbia University

Stan Gacek

Associate Director, International Affairs, AFL-CIO

Lisa Schineller

Director, Sovereign Group, Standard & Poor's

Tuesday, April 24, 2007
8:30 to 10:00 a.m.

Inter-American Dialogue
1211 Connecticut Avenue, NW Suite 510
Washington, DC

RSVP to meetings@thedialogue.org.

*Please include your name and affiliation.
Phone access available for subscribing members upon request.*

Comings & Goings

Baker & McKenzie Hires Otilar; PetroLatina Names Berends CEO

Law firm **Baker & McKenzie LLP** announced this week that Steven P. Otilar, a lawyer with expertise in major Latin American energy and infrastructure development projects, has joined the firm's Houston office as a Partner. Otilar, who worked most recently at **Squire, Sanders & Dempsey, LLP**, has advised clients in Mexico, Brazil, Venezuela, and

Chile, the firm said in a press release. He has particular experience with US companies in international oil and gas exploration and production matters, such as the acquisition and sale of foreign entities and assets, including producing oil and gas properties and wind and natural gas fired power plants. He has also worked in project teams for the development of natural gas fired power plants in Brazil and LNG regasification terminals in Mexico.

UK-based **PetroLatina Energy Plc**, an independent oil and gas exploration, development and production company

focused on Latin America, announced last week the appointment of Rudolph Berends as chief executive officer. Berends was previously CEO for **Mercantile International Petroleum, Inc.**, an oil & gas company with assets in Colombia and Peru.

Political News

Chile, Japan Foreign Ministers Sign Free Trade Agreement

Chilean Foreign Minister Alejandro Foxley and his Japanese counterpart Taro Aso on Tuesday signed a free trade agreement, the most extensive such accord for Japan on the South American continent. The Chilean government stated that the agreement covers market access, services, financial services, investments, phytosanitary (food safety) measures, public purchasing, technical barriers to trade, and migration, among other matters. Foxley, who is scheduled to leave Japan Wednesday after a three-day visit, said, "now [Chile's] challenge is to meet the demands of a market of 127 million potential consumers." More than 70 percent of Chilean exports to Japan will enter the market tariff-free once the treaty goes into effect, with 53 percent of agricultural exports entering the Japanese market tariff-free immediately, and another 35 percent of exports entering at preferential tariff rates from the day the agreement goes into effect. Almost 90 percent of Japanese exports will enter the Chilean market tariff-free. "Chilean consumers stand to benefit greatly from this, as Japanese capital goods, automobiles, and other consumer goods will cost less," Foxley said.

Uribe Government Rejects Allegations Against Army Chief

The government of Colombian President Alvaro Uribe on Sunday rejected allegations contained in a leaked intelligence report that his army chief collaborated extensively with illegal right-wing paramilitary fighters five years ago. In a statement, the government said it would not

accept allegations that in 2002 Gen. Mario Montoya—then a brigade commander—and a paramilitary group jointly planned and conducted a military operation to eliminate leftist rebels from poor areas around the northwestern Colombian city of Medellin, "without any evidence having been previously presented to the ministry of justice or to the Colombian government." The allegations were based on a report circulated within the CIA and reported on Sunday in the *Los Angeles Times*. Michael Evans of the National Security Archive told the *Advisor* this week that "if accurate, the allegations against Gen. Montoya are quite serious." On Monday, the acting US ambassador in Bogota visited Montoya to apologize for the leak, and the CIA told the Colombian ambassador in Washington that the information was third-hand, according to Malcom Deas, a UK professor. [Editor's note: see full Q&A in the March 28, 2007 edition of the daily *Advisor*.]

Economic News

Brazil's Economic Outlook Brightens, Central Bank Says

Brazil's Central Bank on Wednesday raised economic growth forecasts for 2007 to 4.1 percent, compared to the 3.8 percent prediction made last December. The Bank added that inflation should remain in check this year as well, with the IPCA benchmark index now forecasted at 3.8 percent, down from 3.9 percent. For 2008, the Central Bank trimmed its inflation forecast to 4.4 percent from 4.5 percent, however. Some market analysts have adjusted their forecasts as a result of the new government data yesterday. "In response to this revision and factoring in stronger-than-expected activity indicators in the beginning of this year, we are revising upwards our 2007 GDP forecast to 4.4 percent over a year ago from 3.5 percent," **JP Morgan Chase** analysts wrote in a research note this week. Brazil revised its methodology earlier this month for calculating GDP from 1995 to 2005, elevating the growth average of the last five years by 0.7 percent.

POLITICAL & ECONOMIC BRIEFS

Colombian Economy Grew Most in 29 Years in 2006

Colombia's economy grew 6.8 percent last year, the Andean nation's biggest economic expansion in 29 years, the government said Friday, according to Reuters. Growth in 2006 was driven by strong performance in trade and construction. In the fourth quarter, Colombia's economy grew 7.97 percent compared to the same period of 2005.

Guatemalan Interior Minister Steps Down Amid Scandal

Guatemalan Interior Minister Carlos Vielmann resigned on Monday after battling a growing scandal involving allegations that police inspectors were involved in the murder of three Salvadoran politicians last month, local daily *Prensa Libre* reported. Vielmann had received a vote of no-confidence from Guatemala's Congress, but President Oscar Berger defended him. "We have tried to persuade him [to stay], but his resignation is irrevocable," Berger said Monday. Adela de Torrebiarte, a member of the government's security advisory council, was named to replace Vielmann.

Brazilian River Project Approved by Environmental Agency

In a move opposed by environmentalists, Brazil's environmental protection agency on Friday approved a \$2 billion project to shift the course of a major river in Brazil, the Associated Press reported. The agency, Ibama, authorized the project to alter the course of the Sao Francisco River, a plan which is aimed at benefitting some 12 million poor people by allowing large sections of the country's dry northeast to be irrigated. However, environmentalists say the project could dry up the San Francisco—Brazil's fourth-largest river—for part of the year. Brazil currently produces over 90 percent of its electrical power from hydro sources.

Featured Q&A*Continued from page 1*

A **Guest Comment: Gilberto Chona:** "Our understanding is that Trust Company of the West (TCW) requested that the government of the Dominican Republic designate its legal representative before an UN arbitration commission in New York. Should this process actually develop into a full-blown lawsuit, it would somehow affect the smooth implementation of the government's plan for improving performance of the power sector (Plan Integral del Sector Electrico), since TCW is a majority co-owner in EdeEste, the biggest of the three electricity distribution companies in the Dominican Republic. The other shareholder is the Dominican government. At

“ At current prices, \$680 million represents about 2.2 percent of GDP and is almost double the \$350 million overall debt between the government and power generation companies. ”

— *Gilberto Chona*

this juncture, it is pure speculation how winning or losing a potential lawsuit will affect each party. At current prices, \$680 million represents about 2.2 percent of GDP and is almost double the \$350 million overall debt between the government and power generation companies, currently under renegotiation. In 2006, the government directed \$545 million in transfers to the power sector, or about 1.7 percent of GDP. The current plan has a projected target of no more than 1 percent of GDP in transfers to the power sector in 2007. Having to assume an additional debt of the magnitude implied by losing a potential lawsuit would delay achieving the intended government target of financial equilibrium in the power sector by end-2008 and would have an impact on the government budget via additional transfers to service a new, unforeseen debt. However, a definite outcome on this matter is far from clear."

A **Guest Comment: Rolando Gonzalez-Bunster:** "[TCW Group] only paid a dollar for the company. That would be the best deal anybody made: you make 680 million times your investment! It's a lawsuit obviously filed by some opportunistic lawyers. TCW bought AES' interest in EDE Este for a nominal amount, a handshake ... it was mostly so that AES wouldn't have to consolidate any of its losses or debt. I think this particular lawsuit won't have any impact on the tariffs or on the energy sector. First of all, it's an arbitration ... how are they going to enforce it? They're suing a government, [so] there are sovereign immunity issues. They may have some valid points, because obviously the Dominicans changed the rules after AES invested ... but that's par for the course in Latin America. You invest in Latin America, and you take some of that risk. But in any case, TCW has no real loss here because when they bought this company they didn't pay anything for it. If [the suit] is properly defended by the Dominican government, they should prevail. But countries sometimes have to take measures when their economies go into the tank like the Dominican's did, when they had several bank failures. Maybe [TCW has] some grounds for that. But I can't see how it can allege that it has been damaged by anything [the government] did. If anybody was damaged, it was AES. It wasn't TCW. TCW just came along for the ride. They didn't invest anything, nor did they take any risk."

Bernardo Vega is President of *Fundacion Cultural Dominicana* and a former *Dominican Ambassador to the United States*.

Gilberto Chona is Senior Country Coordinator and Country Economist for the *Dominican Republic at the Inter-American Development Bank*.

Rolando Gonzalez-Bunster is President and CEO of *Basic Energy Ltd*.

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