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FEATURED Q&A

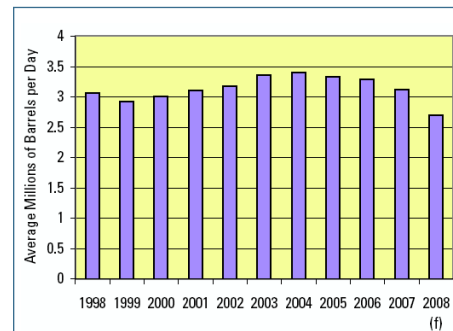
How Will Petrobras Weather the Economic Storm in 2009?

Q Brazil's state-owned oil giant, Petrobras, said this month it will not scale back its five-year \$112 billion capital expenditure program. Meanwhile, loan offers from China, Japan, and private investors rolled in as the company had to take out an emergency loan to pay taxes on its third-quarter profits. What is the outlook for Petrobras in 2009? Where will it focus its efforts, both on the domestic and international stages? What will be its role in exploiting Brazil's yet-untapped offshore pre-salt reserves?

A Guest Comment: Francisco Gros: "By stating that it won't scale back on its investment program for the near future, Petrobras is following the Brazilian Government directive that investments should continue to go forward as usual, choosing to ignore, for the time being, any possible consequences from the crisis. In order to do so, it has turned to all the available government sources of financing: BNDES, Banco do Brasil, Caixa Economica. If they can raise additional funds from interested foreign suppliers, that would be a positive. But I can see a couple of problems. First of all, to the extent it taps all the available sources of domestic financing, it will crowd out more efficient private investment for the economy as a whole, which is a shame. Secondly, Petrobras has recently increased substantially the scope of its

investment program. It has moved from a strong concentration on E&P, its most profitable activity, to major investments in local refineries (an investment program of over \$30 billion), shipbuilding, and so on. Loss of focus is never a good thing, particularly in times of crisis. As Brazil's premier oil company, Petrobras will continue to have a major role in the exploration of our pre-salt reserves. The real question is what role will private investors be allowed to

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Pemex Suffers Continuing Output Decline in 2008

Pemex's production level posted its sixth straight monthly decline in November, down 6.5 percent over last year's output. The Mexican government predicts an output of 2.75 million bpd in 2009. See story on page 2.

Source: Pemex.

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ENERGY SECTOR BRIEFS

Petrobras Delays Approval of \$112 Billion Investment Plan

Brazil's state-owned oil firm **Petrobras** on Friday said it would delay until January the approval its five-year investment plan, estimated at \$112 billion. The decision was taken "on account of the uncertainties and of the volatility of the several markets," according to a statement on the company's Web site. Petrobras' board of directors said projects would be "reassessed based on cost premises to face the scenarios at hand," but that studies still indicate the development of pre-salt reserves is feasible.

Costa Rica to Build 631 MW Mega Hydroelectric Plant

Costa Rican utility ICE will begin construction of Central America's largest hydroelectric project late next year, local daily *La Nacion* reported Tuesday. The \$1.85 billion Diquis project, scheduled to open in 2016 with a capacity of 631 MW, should produce enough power to supply a million families, according to the report. ICE currently has 338 employees at the site preparing environmental impact studies. The project is the largest public works project in Costa Rica's history.

France's Areva Signs Deals with Eletronorte During Sarkozy Visit

French company **Areva** on Tuesday said it signed a \$28 million contract with Brazil's state-owned power generator **Eletronorte** to supply an electricity substation. Areva announced the deal in tandem with the visit of French President Nicolas Sarkozy to Brazil, during which it also signed a memorandum of understanding with Brazilian utility **Eletronuclear** to cooperate on servicing nuclear power plants in Brazil, where it employs 2,700.

Oil & Gas News**Gas Exporting Countries Formalize Forum Amid Fears of a 'Gas OPEC'**

Twelve of the world's largest gas exporting nations met Tuesday in Moscow, where they finalized a charter for the Gas Exporting Countries' Forum (GECF), which aims to supervise the gas market and allow for collaboration between gas-producing countries, reported wire services. The forum, which has existed since 2001, will be permanently headquartered in Qatar, and includes the world's biggest hydrocarbons producers, including Iran and Russia, and from the Western Hemisphere, Bolivia, Venezuela and Trinidad and Tobago. The deputy chief of Russia's **Gazprom**, Alexander Medvedev, dismissed fears that the organization would seek to control prices by functioning as a "Gas OPEC."

"Analogies don't fit, because of the mechanisms of OPEC, based on establishing extraction quotas can't be applied to the gas sector, which operates with long-term supply contracts," he said, according to remarks cited by Bolivia's state news agency ABI. But Venezuelan Oil Minister Rafael Ramirez highlighted similarities between the new gas organization and OPEC. "We see this forum as an opportunity to build a solid organization, which has in its foundation the same principles that gave birth to OPEC," he said, adding that gas exporters needed to find ways to "avoid competition," reported AFP. Bolivia's representative at the forum, Saul Avalos, said his country was seeking greater dialogue with other gas-producing countries, and expressed his hopes for increased cooperation between Bolivia and Russia's **Gazprom**, including help with exploration, recertification of reserves, and the construction of a gas pipeline to Argentina, according to Russian news agency Interfax.



Medvedev

Photo: *Gazprom*.**Pemex's Production Falls for Sixth Consecutive Month in November**

Mexico's state oil company, **Pemex**, said Monday that its production fell 6.5 percent in November as compared to the same month last year, Reuters reported. The company's production in November, 2.76 million barrels per day (bpd) was also the sixth straight monthly decline. Mexico has seen its oil production drop as output from the Cantarell field has fallen sharply. Output from Cantarell plummeted 31 percent to an average of 1.03 million bpd this year through November. The country's government has predicted average oil production of 2.75 million bpd through next year, but analysts say that number may be too optimistic. Early next year, Pemex officials plan to announce the location of a new refinery that will be able to handle 300,000 bpd. Due to a lack of refining capacity, Mexico imports more than 40 percent of the gasoline consumed in the country. [Editor's note: see Q&A on the outlook for Pemex in 2009 in the December 19, 2008 [issue](#) of the *Energy Advisor*.]

Conduit Sells Mexico Natural Gas Facility, Pipeline to InterGen

New York-based **Conduit Capital Partners LLC**, a private equity firm, last Friday announced it had sold the Libramiento natural gas compression facility in Mexico, and an associated 65 kilometers of natural gas pipeline, to US-based **InterGen**. The total value of the transaction, which was originally announced in June, was \$89.2 million, excluding the assumption of non-recourse debt. Starting in 2005, Conduit worked with minority partners **Green Energy** and **Infraestructura Para Energia** to build and operate the facility and pipeline, which are located in Queretaro, Mexico. Since the

To Our Subscribers

Please note that in observance of the Christmas and New Year's holidays, the next issue of the Energy Advisor will be published the week of January 5-9. We wish our readers a happy holiday season and a prosperous new year.

project's completion in 2007, it has had a long-term contract in place with **Pemex Gas Y Petroquimici Basica**, a petrochemical unit of Mexico's state-owned oil company **Pemex**. Based in Massachusetts, InterGen is a power generation firm with 12 power plants located in the UK, the Netherlands, Mexico, the Philippines and Australia.

Repsol Unloads Downstream Assets in Brazil for \$55 million

Spanish-Argentine oil company **Repsol YPF** last Friday announced the sale for \$55 million of its downstream assets in Brazil to **AleSat Combustiveis**, a Brazilian fuel distributor. The deal, which consists of 327 Repsol gas stations in Brazil in addition to transportation, logistical, and convenience store assets, will enable Repsol to focus on its exploration and production operations in Brazil, according to a company press release. "This operation ... is part of a program of divestment of non-integrated assets envisioned in the 2008-2012 Strategic Plan," the company said, noting that the sale of its downstream assets in Chile, Ecuador, and Brazil in the past few months has generated income totaling \$310 million. Repsol said it plans to focus its attention on production at the offshore Albacora Leste field, in which it owns a 10 percent stake, and exploration in the Santos, Campos, and Espirito Santo basins, where it has participation rights in 24 oil and gas blocks. The acquisition of Repsol's downstream assets brings Ale's distribution network to 1,700 stations across Brazil, the Brazilian company said. A number of major oil players, including **ExxonMobil** and **Chevron**, have sold off downstream assets in Latin America during 2008 in an effort to streamline operations and focus on exploration and production. [Editor's note: see related Q&A in the August 22, 2008 [issue](#) of the *Energy Advisor*.]

Power Sector News

Alstom Hydro Inks \$418 Mn Deal to Supply Brazil's Jirau Project

France-based hydropower equipment

Featured Q&A

Continued from page 1

play in the new regulations that are being discussed. That is what will determine how fast and how effectively Brazil will be able to develop its newfound oil resources."

A **Guest Comment: Paulo Valois Pires:** "Petrobras' business plan for 2009-2013 was assessed by the Board of Directors on December 19, but due to economic uncertainty, no final decision was made. The business plan will be re-evaluated in January, when it may or may not be approved. Despite the current economic crisis, Petrobras CEO Jose Sergio Gabrielli declared that the company doesn't intend to reduce investments in the

exploration of the pre-salt layer. He has stated that Petrobras secured \$7 billion in investments and that the biggest difficulty the company has encountered in starting prospecting activities in the pre-salt area is the drill shortage in the market. This has led Petrobras to request an extension of the period to declare the commercial viability of some of the pre-salt fields. The company is expected to play a leading role in the exploration of Brazil's pre-salt reserves since it's one of the leading companies in deep water oil exploration. On December 10, Gabrielli also stated that, even with the dropping oil prices, the exploration of oil in the pre-salt layer is still viable, as long as the barrel price stays at current levels. The

Continued on page 5

provider **Alstom Hydro** said Monday it won a contract worth 300 million euros (\$US 418 million) to supply part of the equipment for the Jirau hydropower plant in northern Brazil, currently the country's largest energy infrastructure project. A consortium led by Alstom Hydro, which includes **Voith Siemens** and **Andritz Va Tech**, will provide 28 Bulb type generating units for the project, slated to open in



Joubert

File Photo: Alstom.

2012 with a generating capacity of 3,300 MW. Alstom Hydro's share of the deal consists of supplying 10 turbines, 17 generators, and monitoring systems for all 28 generators, amounting to 48 percent of the contract, the company said in a press release. Earlier this year, Alstom Hydro inked a similar deal to supply equipment to the 3,150 MW Santo Antonio power plant, which together with Jirau makes up the Madeira River projects. "The Madeira River projects count among Brazil's most important infrastructure development schemes and will play a key role in the country's economic development over the next decade," said Alstom's Executive Vice President Philippe Joubert. Alstom Hydro currently boasts a 35 percent share in

Brazil's hydropower market, and plans to manufacture most of the equipment in Brazil at its Taubate factory. Joubert called the deal a "worldwide acknowledgement of Alstom's superior technology in hydropower." The Jirau plant has a projected cost of \$4.6 billion and is being developed by Consortium Energia Sustentavel do Brasil, a partnership led by **Suez Energy International** that also includes **Eletrosul**, **Chesf** and **Camargo Correa**. In May, Suez said Brazilian development bank BNDES had already committed up to 85 percent of project financing.

Chilean Unit of GDF Suez Secures \$393 Mn to Finance Power Plant

The Chilean unit of French utility company **GDF Suez** has received \$393 million in financing to construct a thermoelectric plant to provide energy to Chilean copper miner **Codelco**, Reuters reported Monday. **GDF Suez Energy Andino** plans to build the 150-megawatt Andina plant in the northern coastal city of Mejillones. The plant would power Codelco's new Gaby copper mine as well as the Chuquicamata mine by 2010. The loan requires a 25-percent balloon payment and will be provided through an International Finance Corporation 'A'

Loan for \$100 million in addition to a \$293 million loan led by European banks **Fortis** and **Calyon**. The thermoelectric plant will be able to burn biomass in addition to other types of fuel, and will be the northern grid's first coal-fired plant. GDF Suez Energy Andino is also constructing the 150-megawatt Hornitos plant in Mejillones, which is slated to deliver energy to Antofagasta Minerals by 2011.

Economic News

Ecuador's President Says Country Will Keep US Dollar as its Currency

Ecuadorean President Rafael Correa on Saturday said the country will maintain the US dollar as its currency, Bloomberg News reported. In his weekly television and radio address, Correa said he has no plans to reverse the country's 2000 dollarization. "It would be stupidity to drop the dollar under these circumstances," Correa said. The president has been a critic of dollarization and in April 2007 called the move a "complete failure." There has been wide speculation that

“It would be stupidity to drop the dollar under these circumstances.”

— Rafael Correa

Correa would move to drop the dollar as Ecuador's currency after defaulting earlier this month on \$3.9 billion in foreign bonds. Correa refused to make a \$30.6 million interest payment that was due December 15, asserting that the debt was "illegal" and "illegitimate." **Goldman Sachs** has predicted Ecuador would abandon the dollar in three years as credit from international banks dries up as a result of the default, the second in a decade. Correa on Saturday said he would seek to restrict imports in order to keep more dollars inside the country and

also counter the drop in the price of oil, Ecuador's main export. Correa added Ecuador will cut salaries in the public sector as well as on pension plans. He added that next year's minimum wage hike and subsidy for the poor will increase less than had been planned. "It's unavoidable that everyone contribute," Correa said. "We will try to protect the weakest." [See related Q&A on de-dollarization in the December 23, 2008 [issue](#) of the daily *Advisor*.]

Political News

French President Signs Arms Deal With Lula in Brazil

French President Nicolas Sarkozy on Tuesday signed an arms deal with Brazil worth over \$12 billion, reported wire services. The agreement includes contracts for French and Brazilian companies to build 50 helicopters and five submarines, one of which will become Brazil's first nuclear-powered sub. "The partnerships with France will allow Brazil to make the necessary technological leap to restructure its armed forces and put in place our new defense strategy," said Brazilian President Luiz Inacio Lula da Silva after the signing ceremony, reported Bloomberg News. Sarkozy said a powerful Brazil would be "an element of stability in the world. The deals are part of a plan in which Brazil's military is changing its focus toward guarding the Amazon and its offshore oil reserves. Officials in Brazil say the military overhaul is not an effort to keep up with Venezuela's increase in arms purchases. During two days of meetings that began Monday, Sarkozy and Brazilian President Luiz Inacio Lula da Silva agreed to form a united Brazil-European Union stance at the next G20 summit focusing on the global financial crisis, reported Reuters. "We decided to narrow our positions and arrive in London with a common vision, on the future role of the IMF, the system of management of financial institutions," said Sarkozy. "We cannot allow a single financial institution to be uncontrolled or unsupervised." The two leaders did not specify what proposals they would raise at the April 2 summit in London.

POLITICAL & ECONOMIC BRIEFS

Calderon Vows to Continue Crackdown on Drug Gangs

Mexican President Felipe Calderon on Monday vowed to continue the country's fight against drug gangs, as officials held a ceremony to honor soldiers who were found decapitated in the area of Chilpancingo, the capital of Guerrero state. Among the 12 people found beheaded Sunday, at least seven were soldiers. "We are well aware that these cowardly assassins are trying to terrorize the state and society," Calderon said in Mexico City. "We will not take one step back in this fight nor will there be any deal or mercy for the country's clear enemies." Calderon did not attend the ceremony, but members of his cabinet did.

UN Says Latin America Growth Will Fall to 1.9 Percent in 2009

A report released last week by a UN agency predicts six years of rapid growth in Latin America will end in 2009, the Associated Press reported. The report from the Economic Commission for Latin America and the Caribbean said next year's economic growth in the region will drop to 1.9 percent, as compared to 4.6 percent this year. "The growth engines are off and it is not known when they will turn on again," the report said.

Official Says Morales' Opponents Attempted Assassination Plot

Bolivian Government Minister Alfredo Rada said Monday that political opponents of President Evo Morales paid one of Morales' peasant supporters to assassinate him, the Associated Press reported. Rada said "extreme right" opponents of Morales worked to convince a poor farmer that Morales had betrayed his social movement. Rada provided no evidence for the accusation.

Featured Q&A*Continued from page 3*

issue that Petrobras really needs to address is the minimum oil price that allows the exploration of fields in the pre-salt area with a viable rate of return for its shareholders. In other words, is \$40 a barrel a viable amount to justify significant investments with high technological requirements and market risks? In addition, Petrobras should take into account in its strategy the opening-up of new opportunities to other oil and gas companies with the goal of sharing risks and associated exploration costs."

A **Guest Comment: Mary Rose Brusewitz:** "The full impact of the continuing waves of global financial crises on Brazil and on the Petrobras group is unknowable. At this time, Brazil appears to be better positioned than most countries in the world to weather the storms. There's no sign that successive waves of bad news will not continue to be felt well into 2009. The Petrobras group continues to be a strong company, with positive long-term prospects. In 2009, the group will continue to face many conflicting priorities in terms of allocating financial, human and political capital and resources. In recent years, relatively easy financing terms were available to the largest Brazilian companies from internal and external sources. With oil prices falling, the economic logic of developing the pre-salt reserves could be challenged, absent strong political will. On the other hand, the pressure on Petrobras' balance sheet from protecting the Brazilian populace against high international oil prices could be less if prices remain relatively low. So far, it appears that the Brazilian government will support and prioritize the strategic goal of developing the pre-salt reserves, though there are signs that tax revenues are taking a downward turn, so funding may need to come from elsewhere. Despite the continued credit squeeze, recent offers of financing to Petrobras from external sources directed at development of the offshore pre-salt reserves seem promising. However, creativity will be needed to ensure that financing terms are palatable both financially and politically. In addition to

financing the development of the pre-salt reserves, the Petrobras group may need to continue to develop existing fields (so as to avoid losing rights to them), invest in the capture and trans-

“Is \$40 a barrel a viable amount to justify significant investments with high technological requirements and market risks?”

— *Paulo Valois Pires*

portation of natural gas, maintain and strategically manage its international operations, support its alternative energy and fuels programs, expand its refining capacity, renew and expand its fleets of ships and platforms and exploit carbon trading markets, to the extent possible, among other goals. There is a hefty agenda even in times of relatively smooth sailing. Brazil is heading into a key presidential election cycle, which is always unsettling. On the other hand, Petrobras has always been a survivor and, even in very lean times in the financial markets, has been able to manage its cash and financing opportunities in an agile fashion. It will need to increase the use of joint ventures with strategic partners and equipment and services providers and access less traditional credit sources. This may imply swallowing, at least temporarily, politically unpopular attributes such as higher financing costs and loss of control in non-strategic areas where partners are brought in."

Francisco Gros is Vice Chairman of the Board of OGX Oil and Gas, a former president of Petrobras and former President of the Brazilian Central Bank.

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