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## LATIN AMERICA ADVISOR ► ENERGY

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### FEATURED Q&A

#### *Is the U.S. Likely to Engage with Cuba on Offshore Drilling?*

**Q** A delegation from the United States organized by the Environmental Defense Fund and the International Association of Drilling Contractors traveled to Cuba earlier this month to evaluate the Caribbean nation's long-term drilling plans. Cuba is expected to begin exploring its offshore reserves in November, leading some U.S. lawmakers and industry experts, in the wake of the BP gulf oil spill, to raise safety and environmental concerns. Will Cuba be able to safely regulate its oil industry? Is the United States likely to engage with the Castro government to establish contingency plans and safety precautions? What special steps should be taken to prevent spills offshore Cuba, or to mitigate their effects, in light of the historical animosity between the neighboring countries?

**A** Daniel Whittle, attorney with the Environmental Defense Fund and co-leader of the delegation to Cuba: "Our independent delegation went to Cuba to share lessons learned from last year's BP disaster, to gauge Cuba's readiness to develop offshore oil reserves and to make initial recommendations on what each government should do to prevent, contain and respond to future oil spills. Among us were the co-chair and the chief scientist of President Obama's oil spill commission, environmentalists and safety experts. Cuba has

long been motivated to develop offshore fossil fuels and may finally be on the brink of doing so. The BP spill was a timely and costly reminder that lucrative deepwater oil production carries with it tremendous risks to marine life, shorelines and livelihoods. These lessons are laid out in the commission's report and we were glad to see many dog-eared copies in Havana. Cuban officials said the report prompted them to update safety and environmental standards. They have also sent engineers to Brazil and Canada for training, which is a

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#### Venezuela Proposing to Pay Exxon \$1 Billion for Assets

Venezuela's oil minister, Rafael Ramírez, denied late Wednesday that the government is in talks with ExxonMobil to pay the U.S.-based oil major \$6 billion for assets President Hugo Chávez seized in 2007. See story on page 2.

*File Photo: Venezuelan Government.*

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## ENERGY SECTOR BRIEFS

**General Electric Wins More than \$1 Billion in New Brazil Orders**

**General Electric** on Tuesday announced more than \$1 billion in new agreements in Brazil's wind, oil and gas sectors. The company said that it was awarded \$800 million for wind and gas turbines for projects that will produce 1.4 gigawatts of electricity. GE also won a contract worth as much as \$230 million to supply drilling and production equipment to **OGX Petroleo e Gas**. "Energy technologies—from exploration to power generation—are in high demand by our customers, particularly in emerging markets," said GE Vice Chairman John Krenicki.

**Ten Companies Express Interest in Uruguayan Exploration Blocks**

Ten foreign companies have expressed interest in Uruguay's second licensing round, which includes 15 offshore oil and gas exploration blocks in water depths of between 2,000 and 12,000 km, Platts reported, citing an official from state-owned company **Ancap**. According to geologist Bruno Conti Paciello, among the companies that have expressed interest are **Gazprom, BP, Total, BG, Tullow** and **Noble**. Ancap will announce the qualified companies next March.

**Brazil's Offshore Oil Will Attract \$250 Billion Over Next Decade: Report**

Over the next decade, Brazil's offshore oil fields will drive \$250 billion in investments, according to a study released Wednesday from **Ernst & Young Terco** and the Getulio Vargas Foundation, Dow Jones reported. While Brazilian oil exports were valued at \$16.1 billion in 2010, the study estimates that they will reach 600,000 barrels a day and generate \$27.9 billion per year by 2020.

## Oil & Gas News

**Venezuela Proposing to Pay Exxon \$1 Billion for Seized Assets**

Venezuela's oil minister denied late Wednesday that the government is in talks with **ExxonMobil** to pay the U.S.-based oil major \$6 billion for assets President Hugo Chávez seized in 2007. "I want to make clear to Venezuela and the world that we are not in any discussions with Exxon Mobil to negotiate this litigation outside the procedures that have taken place in the international arbitration," said Rafael Ramírez, who is also head of the state oil company, **Petroleos de Venezuela**, or PDVSA, Dow Jones reported. Ramírez Escarra



File Photo: Venezuelan Government.

added that the government is seeking to pay Exxon \$1 billion in the arbitration case, which is in the World Bank's International Center for the Settlement of Investment Disputes, or ICSID. Ramírez's statements contradicted remarks made earlier in the day by Venezuela's prosecutor general, Carlos Escarra, who said the government was considering a settlement with Exxon of as much as \$6 billion. Exxon, based in Irving, Tex., had originally demanded \$12 billion for assets Chávez seized as part of his nationalization drive, but the company last year reduced that claim to \$7 billion. Officials of PDVSA have said they expect decisions this year in the cases with Exxon and with Houston-based **ConocoPhillips**, which also had assets seized by Venezuela almost four years ago. However, ConocoPhillips officials said in April that it could be years before they received compensation.

**U.S. Court Unfreezes \$18 Billion Damages Award Against Chevron**

A federal appeals court in New York on Monday reversed an order that had frozen an \$18 billion award against Chevron, stemming from an 18-year legal battle over

the company's activities in Ecuador, Reuters reported. The order, which was issued by the 2nd U.S. Circuit Court of Appeals, is the latest development in the battle in which Ecuadoreans contend that Texaco, which Chevron bought in 2001, is at fault for oil drilling waste that was dumped on their land in the 1970s and 1980s. Chevron argues that Texaco cleaned all the waste pits for which it was responsible before turning the areas over to state oil company Petroecuador. In February, a judge in Ecuador ordered Chevron to pay \$18 billion to the plaintiffs, but both sides appealed.

**Pacific Rubiales Resuming Production After Colombia Strike**

**Pacific Rubiales Energy Corp.** said Thursday that it expects to resume normal crude production within a week after reaching an agreement to lift protests that had shuttered production at Colombia's largest oil field, Reuters reported. The demonstrations on Wednesday forced the Toronto-based company to declare force majeure and halt its pumping of 225,000 barrels of oil a day, a quarter of the country's total oil production. Company executives, oil workers and the government

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*The demonstrations forced the Pacific Rubiales to declare force majeure and halt production of 225,000 barrels of oil a day.*

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reached an agreement late Wednesday to lift the strike, increase dialogue and allow the company to restart production. "The company has commenced the process of restarting operations at the fields and expects to have production back to normal levels within a week," Pacific Rubiales said in a statement, Reuters reported. "There has been no material damage as a result of the blockade." Colombia is the fourth-largest crude oil producer in Latin America, but the country has been beset by social protests, which have been seen as a significant threat to the energy sector.

## Shell Plans Big Investments in Brazil, Likely to Participate in Next Auction

**Royal Dutch Shell** may invest more than \$1.6 billion in the second phase of exploration in a key Brazilian oil block and also plans to compete in the country's next auction of oil and gas concessions, *The Telegraph* reported Wednesday. Andre Araujo, president of **Shell Brasil**, said the second phase development of the BC-10 block in the Campos Basin will start next year, according to the report. "To give you an idea of the importance of exploratory activity in Brazil for Shell, we are going to invest, just in the second phase of BC-10, more than the \$1.6 billion that we spent to set up Raizen [its joint venture Brazilian

ethanol plant]," he said. Shell has a 50 percent share in the block, which may hold 400 million barrels of recoverable oil. Production in the area has been 30 percent higher than anticipated, according to the report. Marvin Odum, Shell's director of exploration and production for the Americas, told local newspaper *Brasil Econômico* that the company sees more attractive investment prospects in Brazil than many other oil-producing nations. "The opportunities that we find here are of the highest quali-



Araujo

File Photo: Shell.

ty in global terms, both from the regulatory point of view and geological," Odum said, adding that Shell was likely to compete when Brazil's National Petroleum Agency auctions new exploration blocks off the country's northeast coast in 2012.

## Power Sector News

### AES, Exxon Announce More than \$800 Mn in Argentine Investments

Argentine President Cristina Fernández de Kirchner on Wednesday met with executives from **AES Corporation** and **ExxonMobil** in New York and announced more than \$800 million in energy sector investments, EFE reported. Arlington, Va.-based AES, which currently generates 12 percent of Argentina's electricity, promised to add an additional 420MW of capacity by 2014. The company's CEO, Andrés Gluski, announced plans for \$300 million of investment, including a 300MW power plant outside of Buenos Aires. AES also pledged increase the amount of biodiesel used in their generators by 10 percent. According to vice president Mark Alberts, ExxonMobil will invest \$400 million to expand fuel production in Argentina and is planning to spend \$120 million to explore in the country's southern Neuquén province, where promising shale gas deposits have been found. Planning Minister Julio De Vido expressed confidence Tuesday that such investments would ensure gas supplies through 2015, Dow Jones reported. "We, together with Bolivia, are going to become a gigantic source of gas in South America with opportunities for industrialization," he said.

### Spain's Vestas Wins New Wind Projects in Nicaragua, Chile

Spain-based **Vestas** said Sept. 16 it has won new contracts in Nicaragua and Chile. In Nicaragua, the company, which supplies wind turbines, has received an order for a total of nearly 40MW for the La Fé-San Martín wind project in Nicaragua. The order has been placed by **Blue Power & Energy**, a company that specializes in the development of wind

### Featured Q&A

*Continued from page 1*

fundamental first step towards building technical expertise needed to effectively monitor operations and enforce regulations. When revenues start flowing, independent oversight will be critical. Everyone at the Havana meetings agreed that Florida and much of the East Coast will be at risk unless the U.S. government authorizes American experts to respond to spills in Cuban waters. This should be followed by earnest and constructive dialogue on how our two countries can cooperate to significantly reduce the likelihood of oil spills altogether. A foundation of good will and exchange has been laid. Now the hard work needs to begin."

**A Jorge Piñon, former president of Amoco Oil Latin America and research fellow at Florida International University:** "The Deepwater Horizon incident and the resulting catastrophic oil spill demonstrate the urgency in developing a policy on energy and environmental cooperation between the United States and Cuba. As international oil companies develop Cuba's deepwater oil and natural gas potential, the consequences to the United States and Cuba from an oil spill demands proactive planning by both countries in order to minimize or avoid such a disaster. To respond effectively to

an oil-related marine accident, any company operating in Cuba would require immediate access to U.S. oil services and equipment companies that can provide the near-instant technology and know-how that will be needed to limit and halt damage to our shared marine environment. What is also urgently needed is for the United States to develop appropriate regulatory and procedural frameworks for the free movement of equipment, personnel and expertise between the two countries as part of an oil spill response cooperation agreement. The 1980 Agreement of Cooperation Between the United States and Mexico Regarding Pollution of the Marine Environment and the 1986 Canada-United States Joint Marine Pollution Contingency Plan provide the foundation for a similar protocol with Cuba, which includes the establishment of joint response team, coordinating roles, rapid incident notification mechanisms, joint operations centers, communication procedures along with regular exercises and meetings. Obviously, the establishment of working relations between the United States and Cuba in marine environmental protection would assist enormously in the contingency planning and cooperation necessary to an early and truly effective response to an accidental oil spill."

*Continued on page 6*

power projects. Delivery of the first turbines is expected to start this year and the project is expected to be commercially operational during the first half of next year. Vestas also announced it has started the construction of a fully owned wind project for 100MW in Chile, the Talinay Oriente Wind Power Plant, which will be located in northern Chile's Limari Province. This project will be the largest wind power plant in Chile, the company said. The construction of Talinay Oriente starts in this quarter and is expected to be finalized in the first quarter of 2012. Once in operation, Talinay Oriente will almost double the wind-power capacity in Chile, the company said.

## Political News

### Mexico City Mayor Announces Presidential Run

Mexico City Mayor Marcelo Ebrard announced Wednesday that he is running for president, the Associated Press reported. In the long-anticipated announcement, Ebrard said he will seek the nomination of the leftist Democratic Revolution Party, or PRD, adding he wants a "fairer, safer and more prosperous society." Ebrard is competing against former Mexico City Mayor Andrés Manuel López Obrador, who narrowly lost the 2006 presidential election to Felipe Calderón, for the PRD nomination. PRD leaders have said they will conduct a public opinion poll in order to select the nominee. While López Obrador has more support among members of the party, Ebrard is running slightly ahead of the former mayor among all voters. Leading polls ahead of the July 2012 election is former Mexico State Gov. Enrique Peña Nieto, who announced Monday that he is seeking the nomination of the Institutional Revolutionary Party.



File Photo: Mexican Government.

### Int'l Court Clears Venezuelan Opposition Leader for Electoral Run

The Costa Rica-based Inter-American Court of Human Rights (IACHR) on Sept. 16 cleared opposition leader Leopoldo López to run for Venezuela's presidency next year, local daily *El Universal* reported. López, a young former mayor of Chacao, was banned three years ago, along with hundreds of other opposition figures, from standing for public office over controversial corruption

charges. He does not have a sure shot to the presidency, however. "The ruling of the IACHR Court runs counter to the human rights of all Venezuelans, the laws of the Republic, justice and national sovereignty; it promotes impunity and impedes and undermines the fight against corruption," a press release issued by the Venezuela's comptroller general office stated. President Hugo Chávez dismissed the ruling on Sunday. "One of my haircuts is worth more than this court," he said to laughter from an audience of supporters,

## Advisor Q&A

### Was Brazil's Surprise Interest Rate Cut Justified?

Excerpted from the Sept. 23 *issue* of the Dialogue's daily Advisor

**Q** In a surprise move, Brazil's central bank on Aug. 31 cut its benchmark interest rate by half a percentage point to 12 percent, as fears of a global economic slowdown overtook those of the country's high inflation rate. The move also raised questions among some analysts about the central bank's independence in the face of political pressures. Was the rate cut justified? Will it have the intended effects or is inflation likely to worsen? Should other countries in Latin America also cut their interest rates, as the Mexican central bank has indicated it is considering?

**A** Lawrence Krohn, professor of practice of international economics at Tufts University: "The Central Bank of Brazil (BCB), which is not legally independent, has been widely seen as a relentless crusader for price stability, immune to all pressures. A single retreat from an extraordinarily high overnight policy rate should not undermine that reputation. No evaluation can be made without reference to the Aug. 31 minutes, which hardly read like a polemical political document. The BCB evenhandedly drew attention to those factors not favoring its rate cut: the strength of domestic demand, recent inflation exceeding the 6.5 percent target ceiling, taut labor markets and sustained credit expansion. But

its mandate is to anticipate. It also saw falling capacity utilization, a stabilization of global commodity prices, a high primary fiscal surplus of 3.15 percent and, above all, an extremely worrisome demand and growth scenario in its important industrial trading partners. These factors suggest an eventual, though not necessarily imminent, easing of inflation pressures. The Monetary Policy Committee, COPOM, worried too about the adverse impact on Brazilian competitiveness of a real trading at a punishing 1.60 per U.S. dollar in late August. On balance, five of the seven committee members reasoned that, given the substantial tightness (even after allowing for inflation) implied by a 12.50 percent Selic rate, a downward adjustment constituted an acceptable risk in regard to future inflation. It is too early to deem that decision irresponsible, even if inflation rises, as is likely, in the months ahead. Other central banks in Latin America should be at least contemplating similar easing in light of such ominous developments abroad. But they start from lower real policy rates than Brazil's."

*Editor's note: The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@the-dialogue.org](mailto:gkuleta@the-dialogue.org) with comments.*

Reuters reported. Chávez has shaved his head since entering chemotherapy and often jokes about his hair. Last week, Carlos Vecchio, a leading member of the opposition Voluntad Popular party, said López would be the party's candidate for the opposition presidential primaries if the IACHR ruled in his favor.

## Economic News

### U.S. Senate Approves Trade Adjustment Assistance Program

The U.S. Senate on Thursday passed legislation to help workers displaced by competition from abroad, which President Barack Obama had demanded in order to send long-stalled free-trade agreements with Colombia, Panama and South Korea to Congress, Reuters reported. The Senate passed the revamped Trade Adjustment Assistance (TAA) program on a vote of 70-27. Senate Republican Leader Mitch McConnell of Kentucky called on Obama to now display "trust" in Republicans by sending the trade pacts to Congress before the House of Representatives has voted on the TAA. House Speaker John Boehner (R-Ohio), said that if Obama sent the trade accords to Congress now, lawmakers could approve them and present them for his signature by the middle of October. "We await the president's submission of the three trade agreements sitting on his desk so the House can consider them in tandem with the Senate-passed legislation," said Boehner. U.S. Trade Representative Ron Kirk called the Senate's passage of the TAA an "important step," but did not say when Obama would submit the accords to Congress. "The trade agreements, along with Trade Adjustment Assistance, are an integral part of the president's plan to create jobs here at home. The president looks forward to their prompt passage," said Kirk, adding that "discussions continue with congressional leadership on how these bills will move through the legislative process." The TAA, which has existed since 1962, was expanded in the 2009 U.S. stimulus legislation to include more workers and provide better health insurance benefits. The more generous provisions

expired early this year and Republicans and Democrats have clashed over renewing them. The Senate-passed bill renews many of the provisions through 2013, but it also reduces from the 2009 law the number of weeks that displaced workers can get income support and makes other changes. The 2009 law came at a cost of \$2.1 billion and the one approved Thursday by the Senate would cost approximately \$900 million over three years.

### Venezuela's Nationalization of Gold Mining Industry Takes Effect

The government of Venezuelan President Hugo Chávez on Monday nationalized the country's gold mining industry, requiring that all gold mined in the South American country be turned over to the state, the Associated Press reported. Private companies will still be allowed to participate in gold mining, but they now can do so only as minority partners with the government. Chávez signed the decree last month for the nationalization, which took effect with its publication Monday in the country's Official Gazette. Private companies have 90 days to form joint ventures with the government, which will hold at least 55 percent of any such ventures. The government's decree also sets a royalty rate of between 10 percent and 13 percent. The country's state oil company, **Petroleos de Venezuela**, or PDVSA, is forming joint ventures with companies to operate mines including Las Cristinas, which was seized from Canada-based **Crystallex International Corp.** Chávez on Aug. 17 announced the nationalization and said his government would repatriate gold reserves held abroad. Two weeks later, Vancouver-based **Rusoro Mining**, which produces 100,000 ounces of gold annually, said it would transfer assets to a joint venture that PDVSA controls. Chávez on Sept. 17 approved \$130 million in new funding for **Corporación Venezolana de Guayana**, the government's mining holding company. The additional money will be used to pay salaries and overtime wages to workers, many of whom have been on strike in recent months, according to the ministry of mining and basic industries.

## POLITICAL & ECONOMIC BRIEFS

### Chilean Students Return to the Streets After Talks Fail

Tens of thousands of demonstrators have resumed protests in Chile's capital after negotiations with the government to meet demands for increased spending and improved quality of education failed, Agence France Presse reported. Between 60,000 and 150,000 students marched from the University of Santiago to the presidential palace on Thursday. Though largely peaceful, small groups clashed with the police at the end of the march and at least 50 people were arrested.

### Paraguay Halts Beef Exports on Foot-and-Mouth Outbreak

In response to the detection of a foot-and-mouth disease outbreak, Paraguay has halted beef exports until December and ordered hundreds of cattle to be slaughtered, Reuters reported Monday. Paraguay is a top 10 exporter of beef and was expected to post record exports this year. Industry figures said that halting shipments until December could cause a loss of as much as \$400 million.

### Colombia Seizes \$250 Million in Property From Drug Gang

Colombian authorities have seized 301 pieces of property, including houses, estates and vehicles from associates of drug lord Joaquín "El Chapo" Guzmán, the head of Mexico's Sinaloa drug cartel, the Associated Press reported Wednesday. Approximately 500 law enforcement officers participated in the operation, seizing some \$250 million in assets. The operation targeted the Cifuentes Villa gang, which has helped the Sinaloa cartel launder money and transport cocaine.

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

**A Jonathan Benjamin-Alvarado, professor of political science at the University of Nebraska at Omaha:** "From a purely technical perspective, the Cubans have consistently demonstrated the knowledge and wherewithal to tackle complex matters while adhering to international safety standards. This was evident from their experience with nuclear energy development, but without a doubt this cannot be done in a vacuum. The Cubans worked closely with the International Atomic Energy Agency and as such there needs to be a set of formal regional agreements and protocols that oversee the safe operation of offshore oil production in the Gulf of Mexico and across the Caribbean. It would make sense for the United States to take the lead in the establishment of such protocols, and the thoughtful commentaries of expert analysts like Fareed Zakaria and Jorge Piñon begs the question. But there hasn't been sufficient political will in Washington to step away from the antiquated and obsolete basis of our Cuba policy. Even with the relaxation of some of the travel regulations, we essentially continue to fight the Cold War in Cuba, albeit trimmed around the edges. There are four critical steps that are recommended by the most knowledgeable observers of the question. First, we must directly engage the Cubans on the development of a joint protocol or emergency response agreement in case of an oil spill. Second, the United States will have to exempt oil equipment and supply companies from the embargo and export control regulations in the case of an accident. Third, we need to identify and license rapid response oil spill service providers so that they can act immediately if the need arises. Finally, the United States must allow Cuba's national oil company Cupet, to join the International Association of Drilling Contractors so that they can gain experience and share in best practices on deep water drilling. Additionally, I would strongly encourage that the United States, along with Mexico, the Bahamas, Jamaica and Cuba

develop a regional environmental safety regime on deep water drilling so that the transfer of technology, safety and environmental practices can be standardized. So long as we continue to rely on fossil fuels we must forge agreements and protocols that address all elements of oil production and its uses.

**A Kirby Jones, president of Alamar Associates in Bethesda, Md.:** "Of course safety is an important issue concerning the plans for Cuba to initiate drilling just a few miles off the coast of Florida. And it is furthermore a legitimate concern, but no less and no more than concern about any oil rig in any waters around the world. From the visits to Cuba by environmentalists and energy experts from the United States and the meetings they have held with their Cuban counterparts, it is clear that the Cubans are equally concerned and are doing all that can be done to prevent any such accident. But the real point for discussion is that the attitude of just a few Florida politicians is the major contributing factor preventing the United States from preparing to combat any possible accident. It is their blindness caused by an irrational adherence to a 50-year-old policy that one day may be the cause of damage to the United States if there is an accident. The administration seems paralyzed from doing what is in the interest of the United States and in the interest in Florida, because this policy prevents any bilateral contact or any involvement with Cuba on this issue. Citizens and tourist officials of Florida should demand that their elected officials put the interests of Florida and American citizens ahead of any personal vendettas against Cuba. Our national strategic need for oil and our national desire for safety should be first."

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

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