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FEATURED Q&A

What Would North American Energy Integration Look Like?

Q U.S. President Barack Obama met with Mexican President Enrique Peña Nieto and Canadian Prime Minister Stephen Harper last week for the North American Leaders' Summit to discuss opportunities for North American cooperation, including closer regional energy integration. Did the summit achieve much in terms of the energy agenda? What would or should regional North American energy policy look like specifically? What benefits would a more ambitious vision for North American energy ties bring about, and what obstacles are standing in the way?

A Jeremy Martin, director of the energy program at the Institute of the Americas: "There's not going to be any other region in the foreseeable future that will enjoy cheaper energy than North America," said Pemex's CEO, Emilio Lozoya, in an interview just before the North American Leaders' Summit. Despite the absence of any major energy pronouncements from Toluca, Mr. Lozoya's view underscores that regional energy trade and trilateral cooperation remain an important part of the relationship, particularly as North America burnishes its energy hub bona fides. Indeed, the foundation is strong: the United States' energy revolution has catapulted it to being the world's largest hydrocarbons producer. Canada is home

to the world's third-largest oil reserves. Mexico has the world's sixth-largest shale gas reserves and is poised to initiate an energy resurgence of its own after sweeping reforms passed last December. Add to those figures the fact that the United States and Canada already form the world's largest integrated energy market. But there are additional opportunities for cross-border cooperation. Joint development of unconventional energy resources and greater electric integration would bring economic, environmental and political

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Repsol, YPF Sign \$5 Billion Compensation Agreement

Spanish oil company Repsol, led by chairman and CEO Antonio Brufau, on Thursday signed a \$5 billion compensation deal with Argentina's YPF for the 2012 nationalization of its Argentine assets. See story on page 2.

Photo: Repsol.

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ENERGY SECTOR BRIEFS

Cosan Plans to Acquire Brazilian Rail Network for \$3 Billion

Brazilian sugar cane and ethanol giant **Cosan** plans to merge its Rumo transportation unit with one of Latin America's biggest rail-shiping companies in a deal valued at \$3 billion, *The Wall Street Journal* reported Monday. The purchase of **América Latina Logística** would bring Cosan's holdings to 36.5 percent of the new company and help Cosan streamline the transport of its products to Brazil's main ports. CEO Marcos Lutz told investors on a phone call that the deal will likely add value to the company's **Raízen** joint energy venture with **Royal Dutch Shell**, Reuters reported.

Pemex Posts \$5.7 Billion Loss in Q4 as Output, Sales Fall

Mexican state oil company **Pemex** said Thursday that it lost \$5.7 billion in the fourth quarter last year. It was the company's fifth consecutive quarterly loss, Bloomberg News reported. Pemex's daily crude production slid 1.5 percent from the same period a year ago to 2.52 million barrels. Sales fell 2.6 percent, as well. Officials hope that a landmark energy overhaul passed last year will spur production.

Chile Increases Solar Capacity to 102.6 Megawatts in January

Chile's grid-connected solar energy capacity rose dramatically last month, from 6.7 megawatts at the end of December to 102.6 MW in January, according to Chile's Center for Renewable Energy, *pv Magazine* reported Feb. 20. Missouri-based **SunEdison** partially connected its 100-megawatt Amanecer solar plant, being built for mining and steel group **CAP. ET Solar's** 3-megawatt Los Puquios plant in the Tarapaca region also connected to the grid.

Oil & Gas News**Repsol, YPF Sign \$5 Billion Compensation Agreement**

Spanish oil company **Repsol** signed a \$5 billion compensation deal Thursday with Argentina's state-owned **YPF** for the 2012 nationalization of Repsol's 51 percent stake in YPF, the *Buenos Aires Herald* reported. Argentine Economy Minister Axel Kicillof signed the agreement in Buenos Aires with Luis Suárez de Lezo Mantilla, the general counsel and secretary

“We should be able to leave this dispute in the past and focus on a more constructive future.”

— *Miguel Galuccio*

of Repsol, and the company's business director, Nemesio Fernández-Cuesta. Under the deal, which still requires approval from the Argentine Congress and Repsol's shareholders, Argentina will pay Repsol with guaranteed, dollar-denominated bonds with a market value of at least \$4.67 billion, Reuters reported. "I think to finally reach a friendly agreement on this contentious issue that has taken two years is extremely positive," Repsol's CEO and chairman, Antonio Brufau, said Tuesday, after the company's board approved the deal. As part of the deal, Repsol said it would drop all legal action stemming from the nationalization, including lawsuits aimed at preventing other oil companies such as **Chevron** from partnering with YPF, and international arbitration, and the companies also signed an agreement to this effect on Thursday. Repsol had originally demanded \$10.5 billion as compensation for the loss of assets responsible for more than half of the company's oil and gas production, but in the end decided to avoid a protracted legal battle and focus instead on plans to boost international exploration and production elsewhere in the world. YPF's change in position, analysts say, was driven by a broader effort to improve Argentina's relations with the international financial community. "This

is very positive," YPF CEO Miguel Galuccio told reporters earlier this week in Buenos Aires, according to Bloomberg News. "Repsol still has a 12 percent stake in the company, there should be a new dynamic now in the board. We should be able to leave this dispute in the past and focus on a more constructive future," Galuccio added. Brufau said this week that Repsol is considering the sale of its remaining stake in YPF.

Petrobras Reports Increase in Net Profit, Sets Daily Pre-Salt Record

Brazilian state oil company **Petrobras** said in a statement Wednesday that its net income in 2013 was up 11 percent compared to a year earlier, to 23.37 billion reais (\$9.97 billion). The company attributed the increase partially to a rise in diesel and gasoline prices, of 20 percent and 11 percent respectively, gains from asset sales, cost optimization and lower foreign exchange impact. The Rio de Janeiro-based company also reported that its earnings before interest, taxes, depreciation, and amortization (EBITDA) was up 18 percent year-on-year. On Tuesday, Petrobras said it had set a new daily output record for pre-salt production. Oil production in fields operated by Petrobras in the Santos and Campos Basin pre-salt accumulations rose to 407,000 barrels per day (bpd) last Thursday, a record daily output, the company said in a press release. "It has taken eight years to achieve this level of output since initial discovery in 2006," the company said, noting that time frame is shorter than industry norms. Pre-salt production takes place in ultra-deep waters, making it a technical challenge to extract. Petrobras achieved the record output from 21 production wells, a relatively small number that Petrobras says indicates the high productivity of the fields already discovered in the pre-salt layer. During the period from 2015 to 2016, eight new platforms are scheduled to come on stream, with pre-salt output expected to surpass 1 million bpd in 2017. Overall, Petrobras' oil production fell 2.2 percent last year to 2.5 million barrels per day, as output from older oil fields has declined, *The Wall Street Journal* reported Tuesday.

Bolivia to Invest \$696 Million in Gas Projects This Year

Bolivia's national oil company, YPFB, said in a statement Monday that it will invest \$695.87 million in natural gas projects this year. Of that figure, \$279.63 million will go to liquid separation plants and \$416.24 million will go to industrialization. The oil company said that it will invest \$197.6 million this year in the \$608.9-million Planta Gran Chaco, a liquid separation plant being built by Spain's **Técnicas Reunidas** that is expected to be completed in September. YPFB has allocated \$82 million to the liquefied natural gas plant in Río Grande in the eastern department of Santa Cruz, which will supply natural gas to 27 cities in the country. YPFB also noted that the start of operations at the liquid separation plant in Río Grande last August allowed it to fulfill domestic demand for liquefied petroleum gas (LPG) and to generate \$14 million through LPG exports to Paraguay and Peru. The company expects production of 129,600 metric tons of LPG at the Río Grande liquid separation plant this year, 80 percent of which will be consumed domestically and 20 percent exported.

Power Sector News

Former Paraguayan Presidents Call for Argentine Contract Changes

Three former presidents of Paraguay on Monday called for renegotiating the country's agreement with Argentina over



Franco

File Photo: Agência Brasil.

the binational Yacyretá hydroelectric project, EFE reported. Former presidents Raúl Cubas Grau, Federico Franco and Luis Ángel González Macchi criticized the agreement at a forum marking 40 years of the Yacyretá treaty. One of the most contentious issues is Argentina's claim that Paraguay owes it for funds that it provided for the dam's construction. A 2009 report by the binational authority

Featured Q&A

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benefits. Given the United States' experience with unconventional resources, trilateral cooperation would be the logical next step. Such cooperation could take the form of a North American Shale Gas Council, a public-private advisory body modeled on the United States' National Petroleum Council. Additionally, cross-border electric integration is ripe for deeper collaboration, particularly between the United States and Mexico. Greater interconnection would not only boost energy security but also increase renewable generation and consumption across all three nations. Reinvigorating the Cross-Border Electricity Task Force set up between Mexico and the United States in 2010 as well as the North American Energy Working group framework would be important steps."

A **Christian Gómez, director of the energy program at the Council of the Americas:** "The North American Leaders' Summit yielded some tangible results. In particular, holding a North American energy ministers meeting in 2014 is an

important first step in advancing the agenda this year. However, many of the energy deliverables were continuations of ongoing initiatives, and thus opportunities were missed for deeper integration. An important advance would be the approval of the Keystone XL pipeline by

“Opportunities were missed for deeper integration.”

— Christian Gómez

the United States. A recent State Department report declared that significant additional greenhouse gas emissions would not be released as a result of construction of the final leg of the project. Approval of the pipeline would strengthen the close energy ties between Canada and the United States. Canada may look to Asia for energy exports should market access not be available south of the border. But the North American energy pic-

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Brazil, Argentina Advancing Plans for Binational Hydroelectric Dams

Brazil and Argentina are working to advance plans for two proposed hydroelectric plants on the Uruguay River, *Valor Econômico* reported Feb. 20. The Garabi and Panambi hydroelectric power dams would have a combined capacity of 2,200 megawatts and have an estimated cost \$5.2 billion. Investment in the plants and the energy generated would be divided equally. The 1,048-megawatt Panambi project would have seven Kaplan turbines and the 1,152-megawatt Garabi project would have eight Kaplan turbines, *Brazil Focus* reported. Flooding for the dams would dislocate 15,000 families in 30 municipalities. A consortium of Brazilian and Argentine companies began carrying out studies on the proposed projects last May. "We hope to have the studies ready by the end of the year," the generation director of

Brazil's state-owned **Eletrobras**, Valter Cardeal, told *Valor Econômico*. Brazil's Eletrobras and Argentine state energy firm **Ebisa** would use a model similar to that used at the Itaipú hydroelectric dam built by Brazil and Paraguay. The companies could form a binational company and license the project as a public work, avoiding a concession auction. Cardeal said that if all goes well, he expects that they would begin contracting builders in 2015 and start construction in 2016.

Political News

Peru's Humala Names New Cabinet Ministers in Shakeup

Peruvian President Ollanta Humala this week swore in new cabinet ministers in the wake of his prime minister's resignation, state news agency Andina reported Tuesday. Local media accounts suggested that policy differences within the administration over potential changes to minimum wage laws were behind the resignation of Prime Minister César Villanueva Sunday. René Cornejo, who has been named to replace Villanueva, becomes the



Cornejo

File Photo: Government of Peru.

to serve under Humala. Cornejo had been housing minister since 2011. Between 2004 and 2007, he was executive director of Proinversion, Peru's agency for promoting private investment. The cabinet shuffle also included the resignation of Mines and Energy Minister Jorge Merino, who was replaced by Eleodoro Mayorga. "Mayorga's background calls attention to government plans to prioritize energy projects (e.g. the delayed concession of the South Andean gas pipeline), while maintaining efforts for new mining projects to come on stream and boost production amid the persistent risk of social conflicts," **Eurasia Group** analyst Maria Luisa Palomino said in a research note Tuesday. Humala also changed his ministers for agriculture,

In Profile

Eleodoro Mayorga, Peru's Minister of Energy and Mines

Eleodoro Mayorga Alba was sworn in as Peru's Minister of Energy and Mines on Monday, following the resignation of the previous energy minister, Jorge Merino, who had occupied the post since December 2011. Mayorga is the third person to hold this position since President Ollanta Humala took office in mid-2011.

Background: Mayorga holds a degree in petroleum engineering from Peru's Universidad Nacional de Ingeniería and a doctorate in mathematics applied to economics from the University of Paris X Nanterre. He also studied petroleum economics and management at the Catholic University of Louvain in Belgium and the French Institute of Petroleum.



Mayorga most recently worked as a partner at **Laub & Quijandría Consultores y Abogados**, where he advised the oil and natural gas sector

Mayorga (R) was sworn in Monday as Peru's Minister of Energy and Mines.

Photo: Peruvian Government.

on loan and technical assistance, as well as developing policies and regulations to improve the efficiency and transparency of energy projects.

He previously worked as a senior petroleum economist in the Petroleum, Gas, Mines and Chemical Products Policy Unit of the World Bank between 1993 and 2009 and spent two years before that in the Bank's energy division. Mayorga worked for state-owned oil company **Petroperú** from 1983 to 1991 as an economics manager and later as the director and general manager of the Camisea pipeline project. His previous experience also includes time as a hydrocarbon sector planner in the Ministry of Energy and Mines from 1972 to 1975.

Mayorga has more than 40 years of experience in the oil and natural gas sector and helped develop and implement the Extractive Industries Transparency Initiative in Peru, as well as several countries in Sub-Saharan Africa.

Of Note: Mayorga's appointment suggests that the government is looking to speed up the execution of the South Andean gas pipeline project, which is estimated to require \$4 billion of investment and has faced numerous delays, *Portafolio* reported.

Mayorga will also assume responsibility for the country's mining sector. Peru is the world's third-largest copper producer and a major producer of gold, silver and zinc, which account for more than 50 percent of the country's exports. The government has been looking to speed up the permit approval process for projects and facilitate investments. Projects have faced permitting delays and opposition from communities over social and environmental concerns.

Editor's Note: See Mayorga's comment in the Jan. 3 issue of the [Energy Advisor](#) on plans to partially privatize Petroperú.

labor, housing, production, and women and social development.

Venezuela Protests Continue as Gov't Seeks International Support

Both supporters and foes of Venezuelan President Nicolás Maduro again took to the streets Thursday in protests that have raged for more than two weeks, EFE reported. On the holiday commemorating the Day of the People's Rebellion, or the "Caracazo," in 1989 that began over an economic package that included higher gasoline prices and bus fares, pro-government marchers gathered outside the presidential palace calling for peace. Meanwhile, student and opposition rallies calling for the release of imprisoned political activists turned violent in other parts of the country. National Guardsmen launched tear gas at some students on the main east-west highway in Caracas, injuring at least 15 students, according to *El Universal*. The government has restricted liquor sale hours at stores and bars through March 4, a policy it has implemented in the past during carnival, which begins today. On a tour through Southern Cone countries, Venezuelan Foreign Minister Elías Jaua on Thursday met with Argentine President Cristina Fernández de Kirchner, who offered her "full support" to Maduro's government, the Casa Rosada said in a statement. Jaua found similar expressions of official support from Brazil and Uruguay on his trip. Venezuela is calling for a special meeting of Unasur to address the crisis. Venezuela blocked a meeting scheduled for Thursday at the Organization of American States over a procedural technicality. "Unasur is the natural place to analyze what's happening in Venezuela," Uruguayan Foreign Minister Luis Almagro told reporters, according to the *Buenos Aires Herald*.

Ecuador: Correa Holds Off on Making Cabinet Decisions

Ecuadorean President Rafael Correa on Wednesday said it may take several days to consider the resignations that his entire cabinet submitted this week, *El Comercio* reported. Correa convened all 34 of his cabinet ministers at the Carondelet Palace

in Quito Wednesday to discuss plans to "oxygenate" the group with a shakeup after his party's disappointing performance in Sunday's local elections. It is not uncommon for a cabinet in Ecuador to submit its resignations en masse and offer a president a chance to "reshuffle" responsibilities and name new ministers. Correa said Wednesday that "it will take time to evaluate and define what changes are appropriate to improve the political process." Observers expect Correa will incorporate some supporters who lost races Sunday into the administration. Opposition candidate Mauricio Rodas handily won a first term as the next mayor of Ecuador's capital city, Quito. The government-backed incumbent, Augusto Barrera, garnered 38 percent of the vote compared to Rodas' 59 percent.



Photo: Ecuadorean Government.

Economic News

Mexico Posts Weaker Balances for Trade, Current Account

Mexico posted a higher-than-expected deficit in the current account of the balance of payments in 2013, EFE reported Wednesday. The \$22.33 billion deficit was up 51.2 percent from the previous year, according to central bank data. The current account, which serves as an indicator of general economic vitality, between January and December 2013 was equivalent to 1.8 percent of GDP, Banxico said. In related news, Mexico's trade balance recorded a large and unexpected \$3.2 billion deficit in January, national statistics agency INEGI said Wednesday in a statement. "Part of the disappointing trade figures can be traced to an important contraction in oil exports," **Goldman Sachs** analyst Alberto Ramos said in a research note. Oil exports declined by 10.6 percent month-on-month, due to lower prices and lower quantities exported. Also, manufacturing exports suffered their fifth consecutive monthly decline, Ramos added.

POLITICAL & ECONOMIC BRIEFS

Foreign Service Officer Group May Buck Mamet Nomination

The American Foreign Service Association, which represents more than 16,000 career diplomats, took the unusual move of announcing Tuesday that it is considering whether to publicly oppose three of President Barack Obama's controversial political ambassadorial nominations, including Noah Mamet, the designee for Argentina, *The Washington Post* reported. Mamet came under fire at Senate confirmation hearings in recent weeks for lack of experience for the job.

El Salvador: Sánchez Cerén Pledges to Ban New Mines

El Salvador's presidential candidate from the ruling FMLN party this week said he would support a ban on metals mining in the country, *La Prensa Gráfica* reported Wednesday. "The threat of metal extraction is a threat to life [itself]," Salvador Sánchez Cerén said while campaigning with environmental activists this week in the rural town of San Isidro, Cabañas. Sánchez Cerén faces a runoff vote on March 9 against former San Salvador Mayor Norman Quijano.

Trinidad & Tobago Opens New Embassy in China

Trinidad & Tobago's prime minister, Kamla Persad-Bissessar, officially opened her Caribbean country's new embassy in Beijing Wednesday, the *Trinidad and Tobago Guardian* reported. During the trip to China this week, her delegation signed agreements for about \$750 million in new construction projects with Chinese companies to build the new port at La Brea as well as seven new industrial parks. The delegation also discussed major Chinese energy investments.

Featured Q&A*Continued from page 3*

ture goes beyond one pipeline. There are 410,000 kilometers of pipelines across the U.S.-Canada border, making it one of the closest energy relationships in the world. Looking south, with the passage of Mexican energy reforms, both U.S. and Canadian companies can also benefit from investment opportunities in the Mexican energy sector. Up until the shale revolution, the United States assumed it would be energy-dependent, not self-sufficient. However, energy integration in North America means that the United States has dependable sources of energy to go along with production. Deeper energy integration is a win-win for North America."

A **Joseph M. Dukert, independent energy analyst based in Bethesda, Md.:** "This could mean a breakthrough for North American energy interdependence...or another missed opportunity. Watch the energy ministers' meeting authorized for later this year. For 20 years we've ratcheted toward coordination (not homogenization) in energy and environmental policy. Promising signs include the fact that the U.S. Department of Energy may have its best-qualified leadership ever. Secretary Ernie Moniz seems unafraid to push sensible moves. Adam Sieminski (formerly chief energy economist for Deutsche Bank) heads the generally autonomous yet instrumentally crucial Energy Information Administration. The U.S.-Mexican agreement on joint development of some gas and oil resources in the Gulf of Mexico dovetails with President Peña Nieto's energy reforms. U.S. exploitation of unconventional resources

makes it less dependent on purchases, so Prime Minister Stephen Harper (and old-timers in the Canadian bureaucracy who are foot-draggers on cooperation) may see that a thoughtfully integrated energy system can augment national

“Key would be approval for a comprehensive, thoughtful 'North American Energy and Environment Outlook' document.”

— *Joseph M. Dukert*

goals. Key would be approval of a comprehensive, thoughtful 'North American Energy and Environment Outlook' document—going well beyond the baby steps made by the North American Energy Working Group. That could mobilize public attention. It's the logical first step for the newly-mandated Quadrennial Energy Review. Mexican leaders say privately that they would welcome such a trinational study, which could make a future smart grid for electricity more effective. Such a study could also aid in the development of fossil fuels and renewable sources, as well as strategies to boost energy efficiency and address climate change. I hope some issues such as Keystone don't interfere."

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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