

INTER-AMERICAN DIALOGUE'S

LATIN AMERICA ADVISOR ► ENERGY

BOARD OF ADVISORS

- | | |
|--|--|
| Jeffrey Davidow
President,
Institute of the
Americas | James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC |
| Ramon Espinasa
Consultant,
Inter-American
Development Bank | Jorge Kamine
Counsel,
Skadden, Arps, Slate,
Meagher & Flom LLP |
| Luis Giusti
Senior Adviser,
Center for Strategic &
International Studies | Larry Pascal
Partner,
Haynes and Boone |
| Jonathan C. Hamilton
Partner,
White & Case LLP | Everett Santos
President,
DALEC LLC |
| Kirk Haney
CEO,
SG Biofuels | R. Kirk Sherr
CEO,
Arrakis Geodynamics |
| Raul Herrera
Partner,
Corporate and
Securities Practice
Arnold & Porter LLP | Roger Stark
Partner,
Curtis, Mallet-Prevost,
Colt & Mosle LLP |
| William Irwin
Manager, International
Government Affairs
Chevron Corporation | Mark Thurber
Partner,
Andrews Kurth LLP |
| Paul Isbell
Director,
Energy Program
Elcano Royal Institute | Roger Tissot
Independent Energy
Economist |
| | Max Yzaguirre
Chief Executive Officer,
The Yzaguirre Group |

FEATURED Q&A

How Can the Dominican Republic's Power Sector Get on Track?

Q President Leonel Fernández of the Dominican Republic last month met with Inter-American Development Bank and World Bank representatives in Santo Domingo to analyze their proposal to improve the nation's electrical system. The \$380 million allocated in the country's 2010 budget for electricity subsidies has already been depleted, according to media reports, and Fernández is facing a number of potentially unpopular decisions. Do the multilateral agencies have the right plan to put the Dominican Republic's power sector on solid footing? How could it be improved? What political, social or economic factors will shape Fernández's decisions moving ahead?

A Bernardo Vega, president of Fundación Cultural Dominicana and former ambassador of the Dominican Republic to the United States: "When a politician who aspired to be president ran the electrical sector there was no hope. With the appointment of a businessman to run it things have substantially improved. Payroll costs have gone down and collections have gone up. However, the main problem is still getting consumers to pay for their electricity and the managers of the three distribution companies are still political appointees. This could improve if personnel with foreign expertise managed the distribution companies. The multilat-

eral agencies have the right plan, but President Fernández does not have the political will to implement it. Disbursements from the Inter-American Development Bank and the World Bank have been delayed because of noncompliance with certain objectives. While in Washington last week, President Fernández discussed with the head of the World Bank precisely this issue. The existing International Monetary Fund agreement requires an increase in the tariff rate, but this has not happened. It also requires

Continued on page 3



Presidents of Guyana, Venezuela Ink Energy Cooperation Accords

Presidents Bharrat Jagdeo of Guyana and Hugo Chávez of Venezuela (L-R) on Wednesday signed accords for cooperation in areas including energy. The agreements include oil subsidies for Guyana. See story on page 2.

Photo: Venezuelan Government.

Inside This Issue

FEATURED Q&A: How Can the Dominican Republic's Power Sector Get on Track?1	Petrobras Seeks Lower Prices by Sourcing Steel From China2	Central American Electrical Integration Projects on Schedule3
Emergency Energy Measures Could Cost Argentina \$2.3 Billion Per Year2	Bolivia Fuel Imports Rise 101 Percent Year to Date2	Jatropha Grown for Biodiesel Could Help Poor Farmers: U.N. Report3
Guyanese, Venezuelan Presidents Sign Energy Agreements in Caracas2	IDB Makes \$14 Million Grant to Haiti for Electricity Repairs3	Advisor Q&A: Will International Capital Markets Now Embrace Argentina?4

ENERGY SECTOR BRIEFS

Bolivia Fuel Imports Rise 101 Percent Year to Date

The value of Bolivia's fuel imports rose 101.5 percent between January and May of this year relative to the same months of 2009, the INE national statistics office said last week, EFE reported. The cost of Bolivian purchases of fuels and lubricants amounted to \$288.5 million during the first five months of 2010, compared to \$143.1 million the same period of last year, according to the report.

SG Biofuels Adds Mathur, Davids to Executive Team

San Diego-based **SG Biofuels**, an agricultural biotechnology company specializing in the development of jatropha as a low-cost, sustainable source of oil, on Thursday announced the appointments of 30-year industry veteran Eric Mathur as vice president for molecular agronomy and scientific affairs and Jeff "J.D." Davids as chief financial officer of the company. SG Biofuels has been focusing its business on Latin America.

Chile's Piñera Urges Boost in Hydropower Investment

Chile needs to increase its investment in hydroelectricity and also work toward developing more renewable energy, President Sebastián Piñera said July 15, Bloomberg News reported. In a speech at the opening of a new liquefied gas terminal, Piñera said the country must diversify its sources of energy while protecting the environment. "We must increase investment in the cleanest energies we have including hydroelectricity," said Piñera. "We have to take advantage of the big projects that nature allows us to build in Chile."

Oil & Gas News**Emergency Energy Measures Could Cost Argentina \$2.3 Billion Per Year**

Declining natural gas production in Argentina, combined with this year's exceptionally cold weather, could cost the government some \$2.3 billion annually, local daily *Clarín* reported Sunday. Four emergency measures, enacted this year as the South American country faces a cold winter and falling gas supplies at home, will depend largely upon costly imports, according to *Clarín's* calculations. The first measure provides for the import of fuel oil and diesel fuel for thermal generation plants. At current prices, sales volumes scheduled for 2010 will amount to about \$800 million. The second measure, natural gas imports from Bolivia, would cost Argentina about \$600 million annually. The third measure, LNG shipments by sea, will be about \$500 million. And finally, projected electricity imports from Brazil and Paraguay would cost \$400 million, according to *Clarín*. More than 100 people have died across South America as a result of one of the coldest winters in a decade. At least 28 people died in Argentina this week. More than half died of hypothermia and a dozen deaths were due to carbon monoxide poisoning from informal heat sources. Extreme cold temperatures have also led to travel delays. Some 20 percent of flights from Buenos Aires' metropolitan

Thousands of cattle have frozen to death on their pastures in Paraguay and Brazil.

airport were canceled Monday, which caused scheduling problems throughout Tuesday. The northern and central regions of Argentina have been the hardest hit by cold and snow. In Bolivia, 18 people have died, in Paraguay five and two each in Chile and Uruguay, and 9 people died of the cold in southern Brazil, according to reports. Thousands of cattle have frozen to death on their pastures in Paraguay and Brazil, CNN reported. Several regions in

Bolivia and Peru closed schools until the end of the week.

Guyanese, Venezuelan Presidents Sign Energy Agreements in Caracas

Guyanese President Bharrat Jagdeo visited his Venezuelan counterpart, Hugo Chávez, in Caracas Wednesday, where the two leaders signed five energy and trade agreements, reported Guyanese daily newspaper *Stabroek News*. The two also discussed a long-standing border controversy over Guyana's Essequibo territory, which Venezuela claims. The agreements include the sale to Venezuela of 50,000 tons of rice with oil subsidies which will be paid for through the Petrocaribe energy cooperation mechanism. It is also expected that Venezuela will export to Guyana, pearl urea, which is a type of chemical fertilizer, and jet fuel, according to the report. Jagdeo thanked the Venezuelan government's longstanding "solidarity with the Caribbean countries that are most vulnerable to the effects of the global economic crisis," according to a Venezuelan government press release.

Petrobras Seeks Lower Prices by Sourcing Steel From China

Brazilian national oil company **Petrobras** will buy 18,000 metric tons of steel from Chinese steelmakers to build transport vessels, choosing foreign suppliers over expensive local steelmakers, Reuters reported. From all sources, the company will purchase 710,000 metric tons of steel plate for its fleet expansion program, the company's **Transpetro** unit said Wednesday, Dow Jones reported. Transpetro chief executive Sergio Machado said his company will purchase the steel through 2013, with 680,000 tonnes earmarked for construction of 49 oil tankers and 30,000 tonnes for a waterway project.

**Machado**

File Photo: Brazilian Government.

About 30 percent of the total steel the company uses has come from Brazilian steelmakers, but Transpetro has com-

plained about higher domestic prices, which have been 40 percent more expensive than steel purchased from Asia, according to the report. "I hope that Brazilian steelmakers will be able to offer competitive prices. Shipbuilding is a new industry in Brazil and its competitiveness can't be penalized," Machado told Dow Jones.

Power Sector News

IDB Makes \$14 Million Grant to Haiti for Electricity Repairs

The Inter-American Development Bank announced Wednesday it has made a \$14 million grant to help Haiti speed up the recovery of electricity services in Port-au-Prince, which were severely damaged by the Jan. 12 earthquake, according to an IDB press release. The grant will help finance repairs to high, medium and low voltage circuits as well as the construction of a new substation in the industrial district of Tabare. The grant will also finance the acquisition of information technology hardware and software and the training of staff to strengthen the business management of state-owned utility **Électricité d'Haïti** (EDH). These investments will support one of the original project's goals: to reduce EDH's technical and commercial power losses. Separately, the IDB is partnering with the World Bank to back an emergency program for solar energy generation with \$3 million in grants from both institutions and the Global Environment Fund. The project supplies solar-powered generators and refrigerators to hospitals and other health care facilities.

Central American Electrical Integration Projects on Schedule

The first substation of the Central American Electrical Interconnection System (SIEPAC) is on schedule to open in Costa Rica next week, the Inter-American Development Bank (IDB) said in a press release Wednesday. "Towers, lines and cables are already in place, so the southern section of the nascent Central American electricity market will soon be

Featured Q&A

Continued from page 1

focalizing subsidies with the poor and not by areas of cities. This has started. Collections and identification of clients have also improved and the huge arrears in payments of subsidies to generators have practically disappeared. With this better scenario, a Latin American company is considering setting up a natural gas plant, which would reduce the dependency on expensive fuel oil. The gas and coal AES plants now provide around 40 percent of all energy. The much announced conversion of Cogentrix to natural gas is still being debated."

A **Elena Viyella de Paliza, president of Grupo Inter-Química in Santo Domingo:** "The Dominican Republic today is in a much better position to improve the

nation's electrical system as many necessary and important decisions are being made under President Fernández's leadership, and the management of Celso Marranzini, a successful private sector business leader who since August 2009 is the minister heading the power sector. Having a private-sector businessman making decisions eases the path to taking unpopular political decisions that might otherwise be delayed or not taken at all. The proposed plan and timing of the Inter-American Development Bank working jointly with the World Bank efforts and the IMF's requirements is on the way to placing the Dominican power sector on solid footing, although many challenges still need to be met especially regarding the distribution companies to improve collections and reliable service. While the \$380 million budget of allo-

Continued on page 6

a reality," the IDB stated. In early August, the substation in Panama will be ready to operate, with similar launches expected during the next few months in El Salvador, Guatemala, Honduras and Nicaragua. In all, 15 substations will be in operation when the system is completed, the IDB said. The SIEPAC consists of a

project, which is expected to bring down costs of electricity to consumers as a result of better efficiency.

Biofuels News

Jatropha Grown for Biodiesel Could Help Poor Farmers: U.N. Report

Using the energy crop jatropha for biodiesel production could benefit poor farmers, particularly in semi-arid and remote areas of developing countries, according to a report released Wednesday by the United Nations' Food and Agriculture Organization and the International Fund for Agricultural Development. But the report stresses that jatropha is still essentially a wild plant sorely in need of crop improvement. Expecting jatropha to substitute significantly for oil imports in developing countries is unrealistic. "Many of the actual investments and policy decisions on developing jatropha as an oil crop have been made without the backing of sufficient science-based knowledge," the report said. "Realizing the true potential of jatropha requires separating facts from the claims and half-truths." Jatropha

“The southern section of the nascent Central American electricity market will soon be a reality.”

— *Inter-American Development Bank*

power transmission line of 1,800 kilometers in length with a capacity of 300 megawatts, sufficient to enable the creation of a Regional Electricity Market. To date, the project is 93 percent complete. The IDB has invested \$500 million in the

seeds can be processed into lesser polluting biodiesel than fossil diesel to provide light and cooking fuel for poor rural families. Seed cake, a byproduct from this process, may be valuable as fertilizer and animal feed after detoxification. Unlike other major biofuel crops, such as maize, jatropha is not used for food and it can be grown on marginal and degraded lands where food crops can not grow. In 2008, jatropha was planted on an estimated 900,000 hectares globally—760,000 in Asia, 120,000 in Africa and 20,000 in Latin America. By 2015, it is estimated that jatropha will be planted on 12.8 million hectares worldwide. The largest producing country in Asia will be Indonesia. In Africa, Ghana and Madagascar will be the largest producers and in Latin America it will be Brazil, according to the report.

Economic News

Latin American Economies Growing Faster than Expected in 2010: ECLAC

The economies of Latin America and the Caribbean have been expanding faster than anticipated this year and should grow 5.2 percent by the end of 2010, but will likely fall back to 3.8 percent in 2011, according to a report released Wednesday by the U.N. Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago, Chile. "This growth



Bárcena

File Photo: OAS.

rate is higher than expected, but economic performance in the region is very diverse. What stands out are the members of Mercosur and countries with greater capacity to implement public policies, as well as those with strong domestic markets spurred by regional activity and their exports to Asia," stated ECLAC Executive Secretary Alicia Bárcena. The highest growth rates in 2010 are in South America, led by the biggest economy in the region, Brazil, which is expected to grow 7.6 percent, followed by

Advisor Q&A

Will International Capital Markets Now Embrace Argentina?

Q **Fitch Ratings on July 12 raised its credit rating for Argentina out of default to a speculative 'B' rating with a 'stable outlook.' The move followed Argentina's completion last week of its second swap of defaulted debt, which Fitch said amounted to 'a positive step toward normalizing relations with creditors.' Will other ratings agencies follow Fitch's upgrade? Will Argentina now be embraced by international capital markets? What will be the long-term consequence of the upgrade for Argentina's economy?**

A **Vladimir Werning, executive director at J.P. Morgan Chase & Company in New York:** "Fitch had kept Argentina's rating below that of other agencies following the 2005 debt restructuring. Its latest action in the wake of this year's restructuring implies a realignment of that rating with those of other agencies. So by itself, the move does not anticipate further rating upgrades. The cycle is favorable with growth estimated at 8.5 percent this year and the trade balance holding up well enough to allow the central bank to continue buying reserves. But an

“The catalyst for another rating upgrade is not far away.”

— Vladimir Werning

upgrade from one of the other agencies would probably depend on proof that the government can refinance itself in the voluntary market. For rating agencies, the lack of market access has been a significant vulnerability for Argentina as it forces the sovereign to pay down debt on a net basis or to embrace heterodox financing policies (nationalizing pension

funds or appropriating central bank reserves). Earlier this year, Argentina's intention to issue sovereign debt was derailed by shifts in global financial markets. But now spreads are 60 basis points from levels at which the government signaled that it would tap markets. Thus, the catalyst for another rating upgrade is not far away. At the current level of ratings the upgrades do not have a meaningful long-term impact. The key factor shaping the market's view of Argentina's long-term performance is expectations for policies that are due to emerge following the 2011 elections."

A **Ricardo Seeber, senior partner at Estudio Beccar Varela in Buenos Aires:** "It is certain that an upgrade of Argentina's credit rating is a positive and helpful sign for all investors, and it could be possible that other rating agencies may follow Fitch's upgrade. However, Argentina is still \$6.2 billion in default and that means all rating agencies will be very cautious when deciding whether to increase Argentina's credit rating. I am skeptical that such an upgrade will have a positive effect in a flow of capital or new investments in Argentina, and that the country will be embraced by the international capital markets. Credit ratings are not the only elements that drive investing decisions. The other factors include stable rules, the state of the legal system and taxes. And in this, Argentina is not doing its homework. Laws are replaced by the simple announcement of a secretary, laws and regulations are modified with no grounds for such changes and politicians are more worried about next year's elections than long-term policies. Although the upgrade is good news, I am not optimistic about the future."

Editor's note: More commentary on this topic appears in the July 21 issue of the Dialogue's daily Advisor.

Uruguay (7.0 percent), Paraguay (7.0 percent), Argentina (6.8 percent), Peru (6.7 percent), the Dominican Republic (6.0 percent) and Panama (5.0 percent). Other countries in the region will have lower growth rates, such as Bolivia (4.5 percent), Chile (4.3 percent) and Mexico (4.1 percent). Colombia will grow 3.7 percent, Ecuador and Honduras 2.5 percent, Nicaragua and Guatemala 2.0 percent. Venezuela will experience negative growth of -3.0 percent. The Haitian economy will contract -8.5 percent as a result of the earthquake last January, while other Caribbean nations will also have negative growth, ECLAC stated. Looking ahead, the economic crisis in some European countries may have negative consequences on the volume and price of regional exports, as well as in the amount of remittances to Latin America and the Caribbean. In Ecuador, the fall in remittances may have a significant impact, given that remittances from Spain make up 3 percent of Ecuador's GDP.

Political News

Venezuela's Chávez Severs Ties With Colombia Over Guerrilla Allegations

Venezuelan President Hugo Chávez on Thursday severed diplomatic relations with Colombia over Bogotá's allegations that Colombian rebels are taking refuge

“We have the right to demand that Venezuela doesn't hide those wanted by Colombia.”

— *Luís Alfonso Hoyos*

in Venezuela, the Associated Press reported. Venezuela closed its embassy in Bogotá and demanded that Colombia's ambassador to Caracas leave Venezuela within 72 hours, said Venezuelan Foreign Minister Nicolás Maduro. Chávez said he was forced to break diplomatic ties because of Colombia's allegations. The

announcement followed a four-hour session of the Organization of American States in Washington in which Colombia's ambassador to the OAS, Luís Alfonso Hoyos, presented photographs, videos, maps and testimony from witnesses, which he said prove the existence of rebel camps in Venezuela. "We have the right to demand that Venezuela doesn't hide those wanted by Colombia," said Hoyos, urging that the OAS investigate the allegations and that Venezuela allow independent observers to visit the alleged camps. After the meeting, OAS Secretary General José Miguel Insulza said the organization could not send inspectors without Venezuela's consent. Venezuela's ambassador to the OAS, Roy Chaderton, said the photographs Hoyos presented did not provide evidence of rebel encampments in Venezuela. Chávez suggested the photos could be fake, adding Colombian President Álvaro Uribe "is capable of anything."

U.S. Offers \$5 Million Rewards for Capture of Peruvian Rebel Leaders

The U.S. government is offering rewards of up to \$5 million each for information leading to the capture of two leaders of Peru's Shining Path guerrilla group, EFE reported Tuesday. Florindo Eleuterio Flores Hala, known as "Comrade Artemio," and Victor Quispe Palomino, alias "Comrade José," have been added to the U.S. list of most-wanted drug traffickers, according to the report. "These activities include extortion, murder and drug trafficking," the State Department said, according to the report. With some of the fastest economic growth rates in Latin America, the government of Peruvian President Alan García has been trying to put the Shining Path's violent history behind the country. Once thought to have been nearly wiped out, guerrillas have been more active in recent months, and as recently as last week clashed with government troops.



Comrade Artemio
File Photo: US Gov't.

POLITICAL & ECONOMIC BRIEFS

Ministry Expects 14.5% Growth in Peru Industrial Sector for June

Peru's industrial sector should grow 14.5 percent in June from a year earlier, state news agency Andina reported Tuesday. "We expect June's figure to surpass that of May (14.5 percent), mainly driven by strong demand for construction finishing materials and textile products as well as increasing alcoholic beverage sales due to the World Cup 2010," said Peruvian Production Minister José Gonzáles.

Valenzuela Plans to Visit Caribbean Countries Next Week

U.S. Assistant Secretary of State Arturo Valenzuela, who earlier this month toured South American countries, will travel to the Caribbean next week for talks on security and other issues, the State Department said Tuesday. Valenzuela will travel to the Bahamas, Jamaica and Trinidad and Tobago July 25-30. Talks are expected to cover a new regional security partnership known as the Caribbean Basin Security Initiative, along with economic opportunity and competitiveness, energy, the environment and health initiatives.

Suriname President-Elect Vows Not to Interfere With His Trial

Desi Bouterse, the president-elect and former dictator of Suriname, said Tuesday through a spokesman that he will not use his office to interfere with his trial in which he and 11 others are accused in connection with the 1982 massacre of political foes during his military rule, the Associated Press reported. Bouterse, who on Monday was elected to a five-year term by the country's parliament, could pardon himself if he is found guilty while in office.

Featured Q&A*Continued from page 1*

cated funds for the power sector has been depleted, there is sufficient additional funding within the plan from the multilateral agencies to be provided upon satisfying structural thresholds that are on the way to completion. A new program called 'Zero Debt Zero Fraud' was recently initiated and has the purpose of incorporating the power sector

Republic. Blackouts have occurred regularly since 1969 and enormous subsidies have been the norm for almost as long. Successive governments, many working in coordination with multilateral lenders, have worked to reverse years of inattention to the losses suffered by power companies. But the lack of payment across the country that has gener-

“The answer to the subsidy issue lies not in external factors, but rather in creating a domestic culture of payment.”

— *Jeremy Martin*

employees as well as the citizens of the Dominican Republic. This could be the beginning of the necessary involvement to resolve the collections problem which is the number-one problem of the sector. Improved collections together with the required structural changes to strengthen the rule of law will heighten confidence from investors, for further development of more efficient cost-reducing power generation projects which could pull the sector out of the vicious cycle where it has been for the last few years. We are moving in the right direction. Perseverance is the key to success."

A **Jeremy Martin, director of the energy program at the Institute of the Americas:** "In the last seven years, the Dominican government has spent more money on electric sector subsidies than on primary education. Celso Marranzini, the head of state energy holding company CDEEE, presented this remarkable statistic at a recent Institute of the Americas energy roundtable in Santo Domingo. Marranzini's broader point is the most critical: such a level of subsidies is not sustainable. Energy woes are not a new phenomenon in the Dominican

ated this annual drag on the nation's budget remains largely unchanged and unchallenged. Laws were passed making nonpayment of electric bills illegal. And some progress was made on system losses—2009 saw a decline to 38 percent from 43 percent in 2000. But the imbalance remains as indicated by this year's energy subsidy price tag. The international financial institutions can, and have, helped the Dominican Republic. But the answer to the subsidy issue lies not in external factors, but rather in creating a domestic culture of payment. This is not a pipedream. Dominicans willingly pay their cell phone bills, for instance. They understand that nonpayment results in service interruption. No one would suggest wide-scale cutting of electric power to any segment of the nation's population, but the political leadership of the country must take the hard steps toward reducing subsidies and encouraging citizen responsibility."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

Latin America Energy Advisor

*is published weekly by the
Inter-American Dialogue
Copyright © 2010*

Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Inter-American Dialogue:

Michael Shifter, President

Peter Hakim, President Emeritus

Katherine Anderson, V.P., Finance & Administration

Genaro Arriagada, Senior Fellow

Joan Caivano, Director, Special Projects

Paul Isbell, Visiting Senior Fellow

Claudio Loser, Senior Fellow

Nora Lustig, Senior Fellow

Manuel Orozco, Director, Remittances
and Development Program

Tamara Ortega Goodspeed, Senior
Associate, Education

Marifeli Pérez-Stable, Senior Fellow

Jeffrey Puryear, Vice President, Social Policy

Viron Vaky, Senior Fellow

Subscription inquiries are welcomed at
freetrial@thedialogue.org

Latin America Energy Advisor is published weekly, with the exception of some major US holidays, by the Inter-American Dialogue 1211 Connecticut Avenue, Suite 510 Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.