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**“Latin America's Energy Outlook:
Not All Countries Are the Same - or Behave the Same.”**

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Latin America Energy Outlook: Not all countries are the same...or behave the same

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The Energy Roller Coaster in Latin America

Energy Companies

SEVERAL PRESIDENTS WITH DIFFERENT DIRECTIONS

CHANGING CONTRACTS

NATIONALISTIC TREND

POLITICAL AND ECONOMIC CRISES



Source: Pluspetrol



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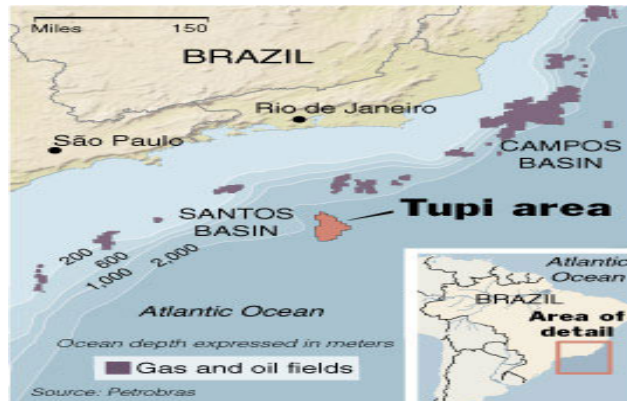
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The Energy Roller Coaster in Latin America

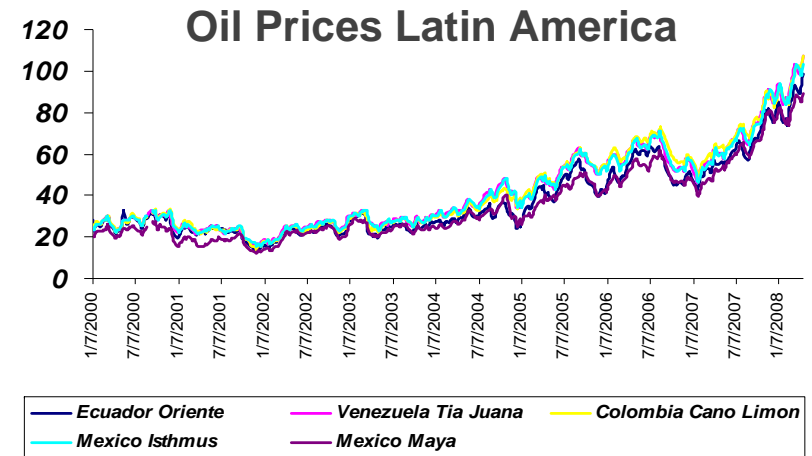
Mixed signals across the region:

- Oil prices have increased by more than 300% since Chavez took office
- Huge discoveries have been made in Brazil
- Record high investments in E&P in Colombia
- Peru set to become a major gas player



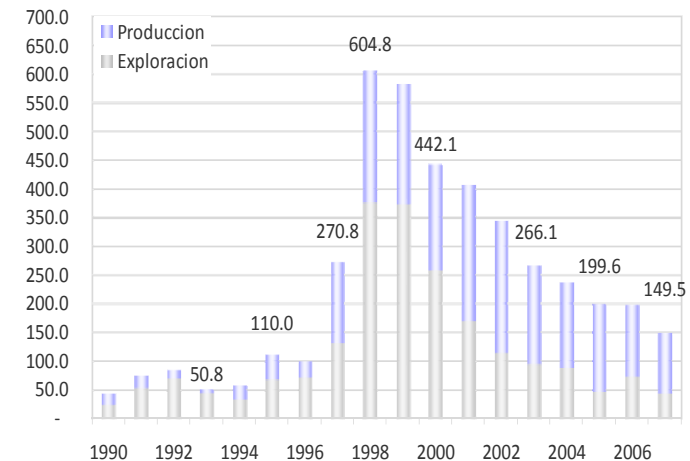
But also:

- Expropriations in Ecuador
- Increased taxes and royalties in Venezuela
- Increasing control by NOC's
- Nationalization efforts in Bolivia
- Devaluation and Export taxes in Argentina



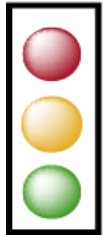
E&P Investment in Bolivia

Inversion en exploración y producción (\$US MM - 2007 estimado)





Not all Countries Are the Same...But the Glass is $\frac{3}{4}$ Full!



LATIN AMERICAN OIL & GAS STOPLIGHT

Based upon three criteria:

- Reserves and Potential
- Production Profile
- Investment Climate



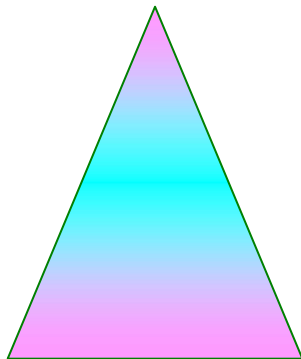


Not all NOC's are Created Equal ...Some are Entrepreneurial others Cash Cows

Not all NOC's have the same capabilities.
Success depends on:

- Good governance capabilities
- Level of political interference
- Human development capabilities
- Economic dependency on oil rents

Strategic Independence



Financial Independence

Operational Independence

Type of NOCs

Entrepreneurial :

Rentier:

Façade:





Not all countries or NOC's are the same... or behave the same. But Why?

- **Neo-Populism and Hydrocarbons**

From sowing petroleum to industrialization

Neo-populism seen in the energy sector through:

- Push for higher taxes and royalties
- Re-birth of National Oil Companies
- Use of hydrocarbons as a geopolitical tool
- Mechanism for “industrialization”=> Sow Petroleum

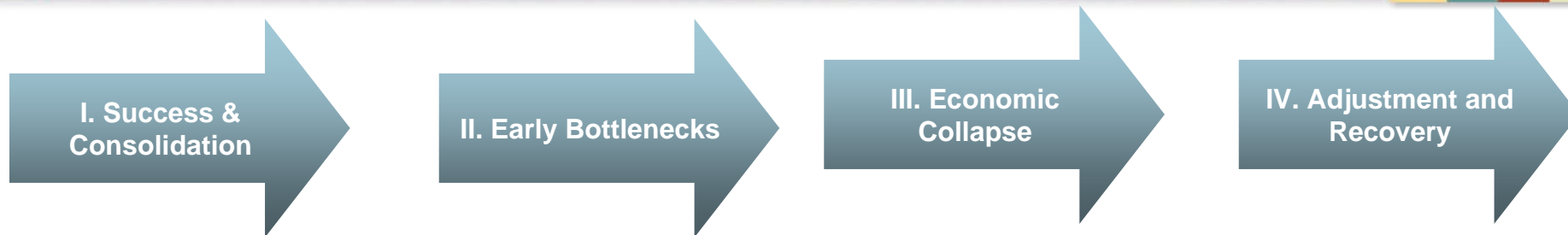
Governments are moving from raw material exporters to value added (petrochemicals)





Economics of Populism

Paradigm shift or Déjà vu all over again?

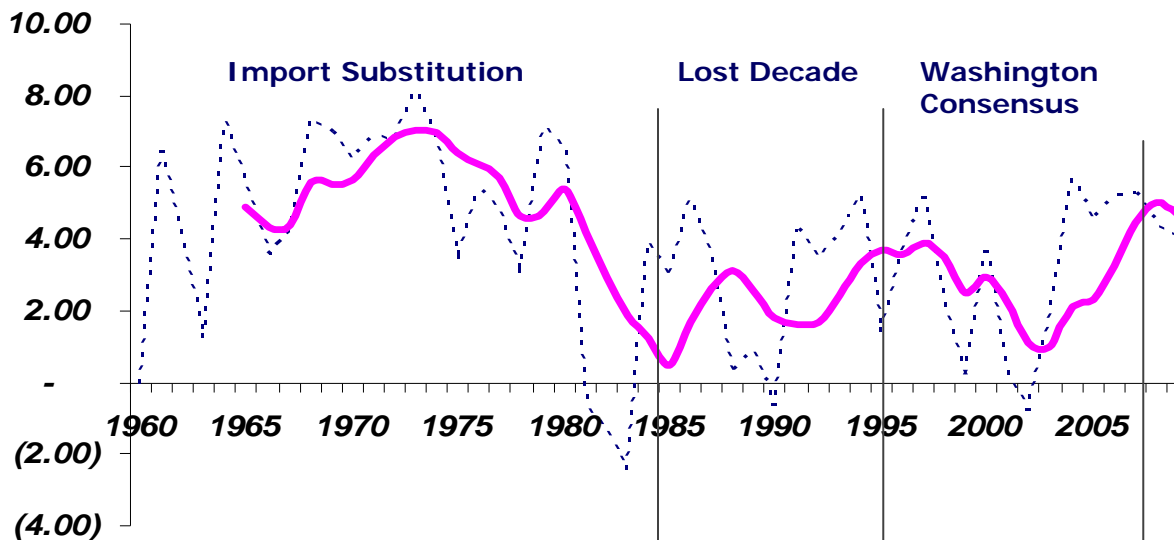


Economic Growth driven by real wage increases and government spending

Inflation pressures: Use of price controls & trade and fiscal imbalances

Inflation pressures capital flight social unrest

Collapse of government; new regime comes into power



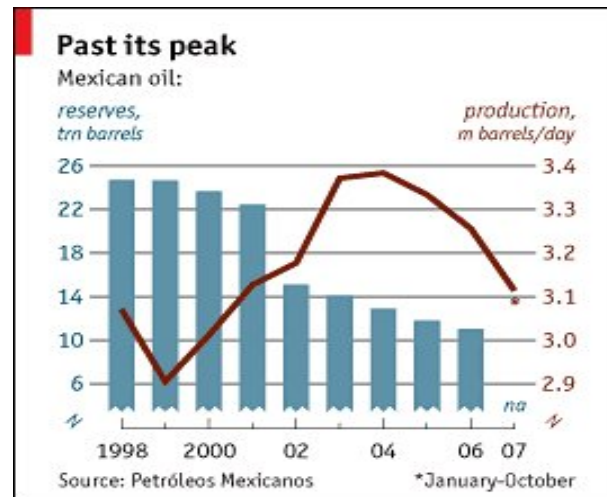
Virtuous cycle?

History repeats?



Mexico

- PEMEX as national symbol
- Fiscal backbone of the country
- Results vs. patronage
- Reform debate again proves delicate nature of the topic
- Key question is what energy future does Mexico want and what role will PEMEX play





Brazil

- Petrobras' star turn
- Evolution – it was not overnight
- Cardoso & breaking the monopoly
- Issues facing commercialization of recent discoveries





Venezuela

- Old PDVSA vs New PDVSA
- Petrodiplomacy
- Still Exhibit A for Dutch Disease?
- Production – reserves, potential and reality





Final Thoughts

Latin America needs massive investment in energy & infrastructure

FDI as a whole for the region has been lagging – especially when compared with China and India

Overall hydrocarbon reserves are declining due to lack of exploration but

Long Term vision is key: Finding balance and avoiding decisions based on one-day snapshots is key - “strategic patience”

Focus on the positives: Partnership not competition – the new NOC paradigm also provides opportunities to partner over the long term

What can IOC's offer NOC's?

- Financial capabilities
- Technical know how
- Project management in an environmentally and carbon conscious world





Conclusions: Paradigm shift?

Reacting to the privatization and de-regulation of the 1990's, the region is reviving NOC's expecting to play a central role in the countries' industrialization efforts

However, the challenges are different today than in the past

***Rise of China=> China is the global factory, USA the global consumer and Latin America the raw material provider
Can Latin America compete with industrializing Asia?
And if not, is it a 19th Century economic model sustainable when 70% of the population lives in large urban centers?***

Latin America's main challenge in the next 20 years is being stuck in middle income status=> too rich to compete on labor costs and too poor to compete on high value added activities



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Interactive Q & A

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