INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR ▸ ENERGY

FEATURED Q&A

What Is Driving Latin America-India Energy Relations?

Q Venezuelan oil minister Rafael Ramírez in late September met with his Indian counterpart, Veerappa Moily, to discuss strengthening energy relations, especially the oil trade, between the two nations. This month, PDVSA announced that it had signed nine agreements with Indian energy companies covering areas such as the oil trade, development of fields, construction of coal and gas-fired power plants and technological cooperation. What factors are driving energy relations between India and Venezuela, and with Latin America more generally? Where are the biggest opportunities for mutual cooperation? To what extent will India's involvement in Latin American oil industries rival China's?

A Rengaraj Viswanathan, distinguished fellow at Gateway House (Indian Council on Global Relations) and former Indian ambassador to Argentina, Uruguay and Paraguay: "Since Chávez became president, Venezuela has been cultivating India as a long-term market for oil and also as a source of investment. This is good for Venezuela's diversification of markets and partnership. And it is good for India too, which can count the country as a reliable supplier in the long run. But PDVSA's attempt to collaborate in gas- and coal-fired power plants is not realistic from either side. Technological cooperation is possible only to a limited extent, given the messy management of PDVSA. India needs to reduce dependence on the unstable Middle East and diversify its sources of crude and oil investment. Latin America with its surplus crude and opportunities for upstream investment fits in with India's energy security strategy. India is already importing from Brazil, Mexico, Ecuador and Colombia. Indian companies have invested in oil fields in Brazil and Colombia. Crude oil is the largest import of India from Latin America. Given the

Continued on page 3

Chile Inaugurates Nation's Largest Thermosolar Plant

Chilean President Sebastián Piñera traveled to the country's northern Antofagasta region to inaugurate the Pampa Elvira thermosolar power plant, which will supply power for state copper-mining company Codelco. See story on page 2.

Photo: Chilean Government.

Inside This Issue

ENERGY SECTOR BRIEFS

Petrobras Workers Across Brazil Begin Strike on Thursday

Workers at Brazilian state oil company **Petrobras** began a strike Thursday to protest the country's auction of the pre-salt Libra oilfield to private companies, scheduled for next Monday, and to demand better pay and working conditions, O *Estado de S. Paulo* reported. The national oil workers' union said the strike was approved by affiliates across the country and will halt activity at refineries, biodiesel plants, distribution terminals, oil rigs, offshore fields and administrative units.

Alstom Wins Contract to Build Mexican Geothermal Project

Alstom Mexicana, the local subsidiary of France's **Alstom**, has won a contract from Mexico's Federal Electricity Commission to build and operate the third phase of the Los Humeros geothermal project in Puebla state, Mexican Business Web reported Oct. 11. Alstom will invest $43 million in the 25-megawatt project. Construction on the geothermal plant will begin after Oct. 25 when the contract is signed, with construction slated to finish by April 2016.

Colombia, Venezuela Agree to Link Oil Pipelines

The governments of Colombia and Venezuela on Wednesday signed an accord to link oil pipelines in an area near the countries' shared border, Bloomberg News reported. The accord will link Colombia's Caño Limón-Coveñas pipeline and Venezuela's Guafita pipeline, Colombian Foreign Minister María Ángela Holguín said Wednesday. The accord will give Colombia an additional way to export crude produced in the eastern part of the country, said Holguín.

Power Sector News

Chile Passes Law Doubling Renewable Energy Target

In a move to reduce the country's dependence on imported fossil fuels, Chilean President Sebastián Piñera on Monday signed a law that nearly doubles the country's renewable-energy target to 20 percent by 2025, SolarServer reported. The law mandates that utilities that own at least 200 megawatts of capacity get 20 percent of their power from non-conventional, renewable sources, including solar and small hydroelectric projects but excluding large hydropower, by 2025, up from the earlier target of 10 percent by 2024. The current standard requires that companies with 200 megawatts of capacity generate 5 percent of their power from renewable sources, a goal that was exceeded by 3 percent last year. If a utility does not meet the renewable-energy minimum, it must purchase credits from power-producers or developers with extra credits, Rodrigo Fernandes, an engineer at Santiago-based **Energetica** told Bloomberg News Monday. If utilities aren't achieving the goals, in 2015 the country may solicit bids for 10-year power purchase agreements in order to spur investment in new power plants. María Paz de la Cruz, director of Chile's Renewable Energy Center, said the new target "is really good news for private developers. With the change in the law we have secured an amount of demand for this type of technology." She said it will also help Chile "become more independent from imported fossil fuels," which currently supply 80 percent of the country's energy. She added, "We're trying to secure a clean energy matrix for the future." On Monday, Chile also published the Electrical Concession Law, which reduces the wait time for developers to connect their projects to the grid from 700 days to 150 days.

"We're trying to secure a clean energy matrix for the future."

— María Paz de la Cruz

Chile Inaugurates Nation's Largest Thermosolar Plant

Chilean President Sebastián Piñera on Tuesday inaugurated the Pampa Elvira thermosolar plant, the country's largest thermosolar project, which will supply energy for the Gabriela Mistral division of state-owned copper mining company **Codelco**, EFE reported. The plant, located in the country's northern Antofagasta Region, will heat water for mining operations, thereby reducing the company's dependence on diesel by approximately 85 percent, according to *Mining Press Edición Chile*. "Chile is a mining country and as such has many challenges. One is the generation of clean and sustainable energy. As a government, we are determined to build and promote all institutions necessary to produce this type of energy, " Chile's mining minister, Hernán de Solminihac, said at the inauguration. The Pampa Elvira thermosolar plant was developed by **Energía Llaima-Sunmark**, a Chilean and Danish consortium, and took eight months to build. The project, which will produce 54,000 megawatt hours of energy annually, will reduce emissions at Gabriela Mistral by 15,000 tons per year as well as save Codelco $7 million over the 10-year term of the contract.

Oil & Gas News

Chevron Begins Trial in New York Over $18 Bn Ecuador Pollution Case

An ongoing legal battle between **Chevron Corp.** and residents of Ecuador's Lago Agrio region continued Tuesday as a trial before a U.S. federal court in New York began, Reuters reported. The battle is over contamination that occurred at a **Texaco**-operated oil field in Ecuador between 1964 and 1992. Chevron purchased Texaco in 2001 and says that it cleaned up its share of the pollution before turning the field over to Ecuador's state-oil company **Petroecuador.** But in 2011, Chevron lost a case in an Ecuadorean court over the pollution and was ordered to pay the Ecuadoreans $18 billion, which they have been unable to collect because Chevron no longer operates in Ecuador. In 2011, U.S. District Judge Lewis Kaplan awarded an injunction that prevented the judgment from being enforced outside of Ecuador, which the 2nd U.S. Circuit Court of Appeals overturned. In Tuesday's case, Chevron is asking that the Ecuadoreans not be allowed to use U.S. courts to enforce the judgment. The case centers on the testimony of former Ecuadorean judge Alberto Guerra who said in a sworn deposition that he had knowledge that the villagers' lawyer, Steven Donziger, had bribed the judge who ruled against Chevron. "We believe that any jurisdiction that observes the rule of law will find that the judgment is illegal and unenforceable," a Chevron spokesman said this week. Donziger's spokesman has said that the claims are baseless and that Kaplan is biased against them. Kaplan will rule on the trial after he determined in early October that the Ecuadoreans are not entitled to a jury trial because Chevron is not seeking damages, according to Reuters.

Donziger

File Photo: BusinessWeek.

India's ONGC Videsh Increases Stake in Brazil's Parque das Conchas

ONGC Videsh, the international subsidiary of India's state-owned **Oil and Natural Gas Corporation** (ONGC), has signed an agreement to acquire an additional 12 percent participating interest in the BC-10 ultra-deepwater block in Brazil's Campos Basin for $529 million, the company said in a statement on Monday. The deal, which is pending approval by Brazil's regulatory authorities, will bring the company's total stake in the project to 27 percent. ONGC acquired a 15 percent stake in the BC-10 block, also known as the Parque das Conchas, in 2006. **Royal Dutch Shell**, the block's operator, holds 50 percent, and

Featured Q&A

Continued from page 1

growing import needs of India and the potential for increases in oil production in Latin America, energy will continue to be an important part of India-Latin America economic relations in the future. India's investment in Latin American oilfields is modest, while Chinese investment is huge. India does not have the money, determination or vision to match Chinese investment and strategies in Latin America. While India and China are rivals for energy sources, there is a surprising partnership. OVL, the Indian oil company, and a Chinese oil company have bought a producing oil field in Colombia, paying $500 million each for a 50-50 joint venture."

A **Anmol Soni, associate fellow and area convenor at the Centre for Research on Energy Security at The Energy and Resources Institute:** "Trade ties between India and Latin American countries have deepened in the past decade. Governments in both the regions have introduced special measures to facilitate this. Particularly in the case of energy, India and Latin America are increasingly becoming important trade partners. Crude oil imports from Latin America have increased from 1.43 million metric tons in 2007-08 to 14.53 million in 2011-12. Of this, imports from Venezuela stood at 9.56 million in 2011-12. This has helped in diversifying the import base for meeting the growing demand for crude oil in India. Improvements in the Indian refining sector have made it possible for domestic refineries to profitably process the heavier, sour crude imported from the region. Further, Indian companies are also participating in upstream activities in Latin America by acquiring stakes and interests in oil and gas fields in many countries and by entering into MoUs with most countries in the region. Enormous possibilities of cooperation and mutual learning exist among India and Latin American countries—not just in terms of trade in petroleum but also in overall energy engagement. These include facilitating the development and technology transfer in biofuels, exploring areas of cooperation in development of unconventional fossil fuels where Indian companies can provide expertise, developing and accessing coal resources in Colombia and developing unconventional gas in both the regions. Developing domestic skills and facilitating the growth of a service industry in the energy sector (both conventional and non-conventional) is necessary for both India and countries in Latin America. Developing joint programs to achieve this goal needs to be encouraged. Irrespective of its relations with other countries, collaboration with Latin America holds large potential for India. To sum up, in order to fully exploit the opportunities for collaboration between the two regions, there is a need to move from only trade-based relations to investment-driven engagement between the countries, especially in the field of energy."

A **Jahangir Aziz, head of emerging markets Asia economics research at J.P. Morgan:** "While much attention continues to be paid to China-Latin America trade links, and understandably so given the size of transactions, trade relations with the other Asian giant—India—have also been expanding for some time now. Exports from India to Latin America were less than $2 billion in 2005. Today, they are more than $13 billion. Latin American exports to India were also about $2 billion in 2005. That has exploded to more than $27 billion. Of course, the geographical distribution is skewed toward Brazil and Venezuela, and much of the rise in trade is linked to petroleum products. The recent spate of trade and FDI announcements between India and Venezuela is a continuation of this trend, largely limited to the oil sector. Consequently, it is easy to characterize these developments as merely a result of India's quest to seek energy security. And this is undeniably on the surface. However, one should not forget that the initial impetus for China-Latin America trade was also related to energy and commodities, and these goods still constitute bulk of the transactions. At the same time,

Continued on page 6

Brazilian state oil company **Petrobras** has a 35 percent stake in the block. In August, Petrobras announced that it had agreed to sell its stake in the project to China's **Sinochem**, but in mid-September, Shell and ONGC Videsh exercised their preemption rights to block the sale. After coming online in July 2009, the project had produced more than 70 million barrels of oil equivalent by July 2013, according to Shell. On Oct. 2, Shell announced that the second phase of the Parque das Conchas project had come online, with a peak production of 35,000 barrels of oil equivalent per day and in July, Shell and its partners announced their plans to move ahead with phase three of the project, which is expected to have a peak production of 28,000 barrels of oil equivalent per day.

Announcement

Ambassador Francesco Olivieri Joins the Board of Advisors

We are pleased to announce that Dr. Francesco Olivieri, the head of the Washington office of **ENEL North America**, has joined the *Energy Advisor*'s board.

ENEL North America is a subsidiary of **Enel S.p.A.**, Italy's largest power company and Europe's second-largest listed utility by installed capacity. With a presence in 40 countries, Enel has approximately 98,400 MW of net installed capacity, and serves 60.5 million power and gas customers.

Previously, Olivieri was Italy's ambassador to the Czech Republic, Croatia, the OECD, the IEA, and the European Space Agency.

As a diplomat with the Italian Foreign Service (1967- 2006), he also served in the United States, Venezuela, the European Union, and China. He was the diplomatic advisor to the foreign trade minister of Italy during the Uruguay Round of trade negotiations (1988-1991), then to Prime Ministers Massimo D'Alema (1999-2000) and Giuliano Amato (2000-2001), and concurrently their personal representative to the G7/G8 through the Italian presidency in 2001. He then served as vice-chair of the governing board of the International Energy Agency (2001-2005).

Argentina Considers Authorizing Import of Light Crude from Nigeria

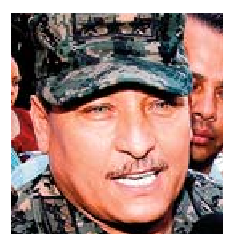
Argentina's government is considering authorizing the import of Bonny Light crude oil from Nigeria in light of the country's decline in oil and natural gas output and worsening trade balance, *La Nación* reported Oct. 12, citing an anonymous source close to the officials responsible for the decision. Argentina's local light crude production has declined, and companies want to import Bonny Light crude from Nigeria to increase the local production of gasoline and diesel, which would reduce imports of those products and benefit the country's trade balance. Argentina's import barriers and currency controls have made it difficult for oil companies to meet their needs, although they are allowed to import crude without permission. The plan under consideration would establish an import quota that would be renewable every six months, according to *La Nación*. The request for permission to buy oil from outside the country was first made by Cristóbal López, the owner of **Oil Combustibles**, who is close to President Cristina Fernández de Kirchner. Oil Combustibles' San Lorenzo refinery and **Royal Dutch Shell**'s Dock Sud refinery are currently operating under capacity and would benefit from the plan, *Página 12* reported. The president of Argentine state oil company **YPF**, Miguel Galuccio, has also spoken about the problem, saying in September that, "We are beginning to see the lack of light crude to process in our refineries." Argentina has not imported oil in 20 years, according to *Página 12*.

> “We are beginning to see the lack of light crude to process in our refineries.”
>
> — ***Miguel Galuccio***

Political News

Honduras Deploys 1,000 Military Police in Two Largest Cities

Honduras' government has deployed approximately 1,000 military police in the country's two largest cities in an effort to curb crime, Bloomberg News reported Tuesday. Lawmakers approved the deployments, which are being funded through a tax that the government imposed on businesses last year. About 500 police officers were deployed in the capital, Tegucigalpa, and another 500 were sent to San Pedro Sula, according to military spokesman Col. Jeremias Arévalo. "We are looking to lower the violence and crime rate, to stop extortion, so that, for example, the woman selling tortillas in the street doesn't have to pay so-called war tax or protection money," Arevalo told Bloomberg News in a phone interview. "The officers are part of the military, but they are doing the work of a policeman, working for public order." The special police force is expected to include 5,000 police officers by the end of next year. The first deployments come ahead of the Central American country's presidential election



Arévalo

File Photo: El Heraldo.

in November. The country's homicide rate is 86 for every 100,000 citizens. That is approximately 20 times the homicide rate in the United States and costs Honduras about 10 percent of its gross domestic product, the World Bank has estimated. The country is a major transit zone for cocaine moving from South America to the United States. About 87 percent of flights that smuggle cocaine out of South America land in Honduras, the U.S. State Department said in March. [Editor's note: See Q&A about Honduras' presidential election in the Oct. 11 issue of the daily *Advisor*.]

Economic News

New Trade Agreement 'Depends on Mercosur': E.C. Official

A trade agreement between the European Union and the South American Mercosur bloc "depends on Mercosur," said a top official at the European Commission, MercoPress reported Monday. "Mercosur has its problems; we have been discussing the cooperation and trade agreement for over a decade, almost 15 years, and the issue is clearly in the hands of Mercosur," Antonio Tajani, the European Commission's vice president for industry and entrepreneurship, said following a two-day visit to Brasília. "Brazil is too important, is full of opportunities for business and investments, and for the E.U., agreements are essential to continue developing and expanding." Tajani said Mercosur has "problems," referring to Paraguay's suspension from the bloc and Venezuela's inclusion as a full member without Paraguay's participation.

Peru's Economy Grew 4.31 Percent in August

Peru's gross domestic product expanded 4.31 percent in August as compared to the same month last year, the country's national statistics agency said Tuesday, Dow Jones reported. The country's finance, construction and mining sectors led the gains for August, said the statistics agency, INEI. The economy grew 4.91 percent year-on-year in the first eight months of this year. Peru's GDP also increased 0.8 percent in August as compared to July. Economists had expected GDP to expand approximately 4.5 percent in August. Declining metal prices have hit the export sector and have caused a drag on the economy in recent months. Slightly higher exports of traditional commodities boosted exports slightly in August, however. Peru's construction sector grew 7.71 percent in August, while retailing grew 5.31 percent, said INEI. The statistics agency added that the mining and hydrocarbons sector rose 7.93 percent in the month, while the country's finance and insurance sector saw 8.33 percent growth. In addition, agricultural activity increased 1.58 percent and fishing grew 5.27 percent. The only sector that experienced a decline was manufacturing, which shrank 1.18 percent in August, year-on-year.

Brazil May Continue Currency Intervention to Boost Real

Brazil's central bank may extend its program of currency swaps and credit line auctions into next year in an effort to boost the real, Bloomberg News reported Sunday. Analysts expect the Brazilian currency will depreciate this year on the expectation that the United States will wind down its monetary stimulus. "The program has proved successful in curbing volatility and could be extended beyond year end if necessary," said Brazil's central bank chief, Alexandre Tombini. The central bank said in August that it would carry out currency swap auctions of $500 million four days a week and credit-line auctions of $1 billion once a week. The real had weakened to nearly a five-year low before the central bank started the program. It has since gained 11.9 percent against the dollar.

> "The program has proved successful in curbing volatility..."
>
> — *Alexandre Tombini*

POLITICAL & ECONOMIC BRIEFS

Brazil's Retail Sales Grew More Than Expected in August

Retail sales in Brazil grew more than analysts expected in August for the second month in a row as slower inflation increased consumer demand, Bloomberg News reported Tuesday. Retail sales in August saw an increase of 0.9 percent from July, while retail sales in July grew 2.1 percent as compared to the previous month. The country's central bank, which is responsible for the longest current stretch of interest rate increases in the world, is helping to tame inflation and drive sales.

Venezuela Releases Detained U.S. Oil Ship

The owners of the U.S.-operated Teknik Perdana said Tuesday that the oil ship, which the Venezuelan navy detained last Thursday, has been released, BBC News reported. Venezuelan authorities boarded the ship last week while it was carrying out surveys along the coast of Essequibo off Guyana, an area that Venezuela has claimed as its own since the 19th century, and accused it of illegally operating in Venezuelan waters.

Costa Rica Asks World Court to Halt Nicaragua Canal Dredging

Costa Rica's government on Monday asked the United Nations' International Court of Justice to halt Nicaragua's construction of two canals from the Caribbean Sea to the San Juan River, which forms part of the border between the Central American countries, the Associated Press reported. Edgar Ugalde Álvarez, who represented Costa Rica in the argument, asked the court to stop Nicaragua's dredging of new canals and order it to remove Nicaraguan personnel from the area.

Featured Q&A
Continued from page 3

there has been significant diversification into manufactured goods too. India-Latin America trade will also likely develop along these lines. The potential of such trade is enormous both in commodities and manufacturing, as well as in IT. Distance is clearly the big cost factor that is holding back trade expansion. But as the Indian oil companies in both the public and private sector have shown, and as has been long demonstrated by the China-Latin America trade, modern transportation technology is capable of overcoming such bottlenecks if there is enough incentive on both sides. My guess is that the bigger stumbling block is the lack of familiarity of doing business between the two. The oil trade is a good way of breaking the ice. "

A **Aparajita Gangopadhyay, associate professor and director in-charge of the Centre for Latin American Studies at Goa University:** "The recent India-Venezuela agreement on energy is a noteworthy achievement meant to reduce India's dependence on the volatile Middle East. It is meant to broad-base India's supply base to ensure uninterrupted and sustained energy flows for the needs of its growing economy. It is bound to insulate India's growing energy demand from the political vagaries of a given region. As an energy-deficient country, India has to continually seek new partners in the energy-rich countries of Africa, Latin America and Central Asia. Thus, the agreement turns out to be a success story for India's economic diplomacy. In a strategic sense, it underlines India's re-positioning vis-à-vis China's 'going out strategy,' at least in Latin America. India's pre-eminent position in Africa is already overshadowed by the increasing presence of China despite the enormous goodwill that India has historically commanded in the region. This agreement demonstrates India's resolve, though fledgling, not to yield to the overwhelming Chinese capture of the Latin American markets. Noticeably, India works against many odds in comparison to China. Its decision-making process is slow and cumbersome given the democratic negotiation of varied interests. The absence of direct shipping lines also acts as a deterrent. However, India has been able to draw upon the Latin Americans' growing suspicion of aggressive Chinese policies and its ill-effects on the industrial processes in the region. The agreement not only provides India with new options for its energy requirements but also enables Venezuela to play the India card as an effective antidote to Chinese brazenness."

A **Stuti Banerjee, research fellow at the Indian Council for World Affairs:** "India is one of the largest consumers of oil, importing more than 70 percent of its total requirement. India's energy needs will grow in the near to medium future as it experiences economic growth. At present, India imports its oil largely from the Middle East, the Gulf states and Iran. The turbulence in the region, however, has made it look to diversifying its sources of oil imports. With the supply of oil from Iran declining, one alternate source for India is Venezuelan oil. Energy diplomacy in Latin America is helping India achieve this diversification while at the same time helping it expand its footprint in the region. Currently, pharmaceuticals, information technology and information technology-enabled services, along with mining and oil drilling, are the major areas of cooperation between India and Latin American countries. One hopes that in future this cooperation would extend to agriculture and agriculture-related sectors as well as joint collaborations in the education sector. There is immense potential for India to invest in the countries of the region. India is deepening its diplomatic and economic reach in Latin America in the face of China's growing presence. However, India is engaging within the region in sectors that are its strengths. There are reports of growing anxieties about Chinese investments in the region, which is also limited to a few countries. In the energy sector, India is looking the resource-rich countries of the region to help achieve energy security."

Latin America Energy Advisor
is published weekly by the Inter-American Dialogue
Copyright © 2013

Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

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 NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962