INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR ▸ ENERGY

FEATURED Q&A

Are Labor Conflicts in the Region's Energy Sector on the Rise?

Q Labor disputes and the threat of strikes at some of the region's largest oil and gas companies, including state-owned Brazilian giant Petrobras and Trinidad's Petrotrin, have made headlines in recent weeks. As more and more money comes into and out of the region's energy industries, will labor unrest become an increasing problem? What is the state of organized labor in Latin America's energy sector today? What factors are shaping the dynamics of power between stakeholders? What influence are unions having on productivity and wages in the energy sector?

A Bret Gustafson, associate professor of anthropology at Washington University in St. Louis: "Labor unrest is rare and organized labor is weak. Colombian oil unions face paramilitary violence and a state aligned with industry. In Mexico, the return of the PRI and union boss Carlos Romero Deschamps hint at a paradoxical turn toward policies that favor private investment. Union leadership may benefit from old-style corruption, but rank-and-file workers will face more subcontracting, temporary work and fragmentation of production, processing and transport. Despite Bolivia's socialist rhetoric, unions are divided between public and private firms, fragmented by subcontracting, or illegally prohibited. Conflicts arise from the unemployed seeking work or from local disputes with subcontractors who renege when projects dry up. In Argentina, provincial decentralization also limits labor conflict to sporadic local and company-specific actions. Despite the 'recovery' of YPF, two-thirds of its labor force works for contractors. YPF head Miguel Gallucio, ex-employee of Repsol and Schlumberger, favors subcontracting and decentralized management. Both weaken labor's position. In Brazil, strikes are rare, and strike threats are limited to annual arm-wrestling over wages and profit-shar-

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Argentine Energy Secretary May Face Charges from Probe

Argentine Energy Secretary Daniel Cameron is being investigated for his involvement in the alleged embezzlement of public funds slated for the Rio Turbio coal mine and may be prosecuted for "dereliction of duty" as a public official. See story on page 2.

File Photo: Government of Argentina.

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ENERGY SECTOR BRIEFS

Maduro Claims Opponents Plotting Sabotage to Power Grid

Venezuela's interim president, Nicolás Maduro, claimed Monday in a televised address that government opponents are plotting to sabotage the country's power grid and interrupt food distribution ahead of the April 14 presidential election, the Associated Press reported. The country already suffers from some shortages of basic foods due to inflation and occasional power outages. On the campaign trail Monday, opposition candidate Henrique Capriles Radonski told supporters, "Inflation has a name: Nicolás Maduro," *El Universal* reported.

SolarMax Opens Sales Office in Chile, Its First in Latin America

Switzerland-based **Sputnik Engineering,** the manufacturer of the SolarMax brand photovoltaic inverters, said Tuesday it is opening a new office in Chile, its first in Latin America. Fernando Sánchez, who is also general manager of the company's office in Spain, will run the office. Chile's government has set a target for 10 percent renewable energies by 2024. A total of 167MW capacity generated out of renewable sources was installed there last year.

Halliburton Names Brazilian Ethanol Executive to Board

Houston-based oil services firm **Halliburton** on Wednesday announced that José Grubisich has been named to the company's board of directors. Since 2012, Grubisich has been CEO of **Eldorado Brasil Celulose**. Previously, he was CEO of **ETH Bioenergia**, a producer of ethanol and electricity from biomass. "José brings significant executive leadership experience in Latin America and internationally," said Dave Lesar, Halliburton's CEO.

Oil & Gas News

Argentine Energy Secretary May Face Charges in Embezzlement Probe

Argentine Energy Secretary Daniel Cameron is being investigated for his involvement in the alleged embezzlement of public funds slated for the Rio Turbio coal mine, *Clarín* reported Monday. The case involves activities between 1995 and 2002, when Cameron was a member of a supervisory committee charged with overseeing millions of pesos in subsidies from the national government for the mine, money that was allegedly diverted by business managers to other purposes. Cameron may face charges of "dereliction of duty" as a public official, according to the report. Federal Judge Sergio Torres, who had dismissed charges against Cameron in 2009, has now found there were "various irregularities pertaining to the management, administration and custody of state assets transferred" to the company's investors. Businessman Sergio Taselli has also been implicated in the case and faces charges of mismanagement of subsidies.

> *Cameron may face charges of "dereliction of duty" as a public official.*

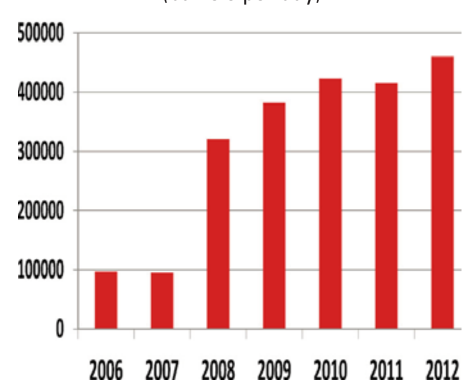
Peru Declares State of Emergency Over Oil Contamination in Jungle

Peru's government on Monday declared a 90-day environmental "state of emergency" in an Amazon jungle region due to contamination from oil drilling it blames on Argentina's **Pluspetrol**, the Associated Press reported. Environment Minister Manuel Pulgar-Vidal made the declaration following a congressional delegation's visit to the area last week. With the decree, the government has deemed Pluspetrol's cleanup of oil spills in the Pastaza river region bordering Ecuador to be inadequate. Local indigenous groups have been complaining for years about the contamination, according to the report. Pluspetrol has been operating there since 2001.

PDVSA's Profit Slips 0.2 Percent to $4.2 Billion: Oil Minister

Venezuelan state oil company **PDVSA** had net income of $4.2 billion last year on $124.4 billion in revenue, the country's oil minister said last Friday, Dow Jones reported. In addition, PDVSA made $24.5 billion in investments in the country's oil industry and intends to make approximately the same amount of investments this year, added Rafael Ramírez, who is also the head of the state oil company. Speaking to reporters in Caracas, the oil minister also bristled at recent press reports that some of the companies that have partnered with PDVSA are losing patience with Venezuela's government over payments that have been long delayed. "We are facing an economic war," said Ramírez, saying that he and advisors in the oil ministry are facing several negative headlines, which he said amounted to "an attack" on Venezuela. Ramírez said PDVSA owed service providers more than $16 billion as of the end of last year. Ramírez said he recently met with top officials of Houston-based **Schlumberger** and also received letters from India's **ONGC Videsh** and Russia's **Lukoil**, all of which stressed their commitments to working with Venezuela. Despite rising oil prices, PDVSA's revenue last year was 0.2 percent lower than in 2011,

Venezuela's Oil Exports to China
(barrels per day)



Data: PDVSA. Chart: Andrés Rojas Jiménez.

The Dialogue Continues

Will Mexico Be Able to Reform Its Energy Sector This Year?

Q Nearly 5,000 members of Mexico's PRI, the Institutional Revolutionary Party, voted unanimously at their national convention earlier this month to remove language in the party's platform that for years had opposed injecting private money into the sector, the Associated Press reported. National oil monopoly Petroleos Mexicanos, or Pemex, will remain in state hands however, party officials insisted. What does the platform change say about the chances for meaningful energy reforms passing Mexico's Congress? Does President Enrique Peña Nieto have the right plan for improving the country's energy sector performance?

A Joseph M. Dukert, independent energy analyst: "Changing the energy platform was courageous and consistent with Peña Nieto's bold recent actions to reform education as well. Unanimous action by the PRI undercuts resistance from the dinosaurs within it and should help win continuing support for private energy investment from the PAN, smoothing congressional passage. The PRI's overwhelming control of governorships should clinch states' ratification of constitutional changes needed. Earlier appointments of qualified, knowledgeable and open-minded people to Peña Nieto's cabinet and sub-cabinet (Foreign Ministry as well as Energy Ministry) are an unpublicized asset. Fiscal reforms also promised will be necessary too. Pemex's role as a cash cow for more than one-third of all federal revenue must end, because an infusion of private investment alone is insufficient to provide advanced technology needed to develop deep-water hydrocarbons and to start serious production of shale gas and shale oil. Details of private participation (yet to be spelled out) must satisfy not only Mexican legislators and the populace, but also prospective investors. Disappointing results from earlier experiments with service contracts suggest that Mexican authorities may overestimate the desire of investors to choose an option they offer in preference to opportunities elsewhere. This country could help—not by interfering in the debate, but by ratifying an agreement signed last year to permit binational development of hydrocarbon resources that straddle the U.S.-Mexican border in the Gulf of Mexico. The White House has curiously stalled in accepting this earlier, unpublicized reform."

> "Private investment alone is insufficient to provide advanced technology needed to develop deep-water hydrocarbons..."
>
> — *Joseph Dukert*

Editor's note: The above is a continuation of a Q&A published in the March 18-22 issue of the Energy Advisor.

Ramírez added, Reuters reported. The company paid out $43.9 billion for social programs and a development fund created by late President Hugo Chávez. It also exported oil abroad at what critics say are below-market prices. "This is not a company designed to generate profits. This is a national company. We're not here to provide benefits to private individuals," said Ramírez. Venezuela's government will likely rely "even more heavily" on foreign partners for financing in the year ahead, **Eurasia Group** said Monday in a research note. China, and to a lesser extent, Russia, will make up the bulk of financing. China's **CNPC**, Russia's **Rosneft** and U.S.-based **Chevron** "have proven to be the most willing to provide PDVSA with additional financing support in recent years, with China by far representing Venezuela's largest source of foreign financing," Eurasia Group said. China has lent Venezuela some $36 billion to date, while Rosneft agreed in February to a $1.1 billion bonus payment for its **Petrovictoria** joint venture, along with $1.5 billion in financing. PDVSA and Chevron are set to sign a $2 billion financing agreement for their Petroboscan joint venture later this month, according to the report.

Holland's SBM Offshore Wins $3.5 Billion Brazil Contract

Brazilian national oil company **Petrobras** has awarded two offshore oil rig contacts worth $3.5 billion to **SBM Offshore**, the Dutch company said in a press release Tuesday. The contract calls for a 20-year charter and operation of two floating, production, storage and offloading platforms, or FPSOs, to be deployed at the Lula field in the pre-salt areas offshore Brazil. The BM-S-11 block is under concession to a consortium comprised of Petrobras, **British Gas** and Portugal's **Petrogal**. The FPSOs will be owned and operated by a joint venture company owned by SBM Offshore with other partners, including Brazil's **Queiroz Galvão Óleo e Gás**. SBM anticipates delivery of the rigs by the end of 2015 and early 2016. In line with Brazilian regulations, a substantial part of the project management, procurement and engineering services will be carried out in Brazil. Together, the two FPSO's represent the biggest contract ever awarded to SBM, the company said.

Construction on New Caribbean Gas Pipeline to Begin Next Year: CEO

Construction will begin next year on a $300 million natural gas pipeline from southwest Tobago to islands of the southern Caribbean, the *Guardian* reported Tuesday. Greg Rich, the CEO of the **Eastern Caribbean Gas Pipeline Company Limited**, told reporters that the first phase of the pipeline project will end in Barbados. The gas, which will begin to be pumped in 2016, will come from the **BHP Billiton** field east of Trinidad to the processing plant at Cove, on Tobago. Executives say that phase two of the project will involve extending the pipeline from Barbados to other Eastern Caribbean islands, which hope access to lower-cost gas will bring down electricity costs that have crimped economic growth. Most islands in the Caribbean currently need to burn more costly fuel oil to generate power.

YPF, Dow Argentina Form Joint Venture to Explore for Shale Gas

State-run Argentine oil company **YPF** and **Dow Argentina**, a unit of U.S.-based Dow Chemical, have signed an agreement to create a joint venture to explore for shale gas, Dow Jones reported Tuesday. The companies plan to work together to find gas in Neuquén province's Orejano block. "The agreement between both companies is fundamental for the development of shale gas in the country," YPF said in a statement. Neither company disclosed the amount of money they plan to invest in the venture. Argentina has the world's third-highest quantity of potentially recoverable reserves of shale gas after China and the United States. YPF and Dow Argentina also agreed to cooperate on finding ways to develop Argentina's petrochemicals industry.

Power Sector News

Endesa Chile Denies Power Plant at Fault in Shrimp Die-Off

Electricity generator **Endesa Chile** last week denied wrongdoing in the death of thousands of shrimp and crabs that have washed ashore in southern Chile, the Associated Press reported. Local fishermen have blamed the massive die-off, which has occurred mainly on a beach about 330 miles south of the capital this week, on the company's water-warming Bocamina 1 and 2 power plants. A company manager said Endesa Chile had studied the die-off and concluded it "is due to the flow of deep waters coming from the continental platform, induced by currents of wind on the ocean."

OPIC Loans $193 Million for Peruvian Wind Farm

The Overseas Private Investment Corporation (OPIC), the U.S. government's development finance agency, on Friday announced it had approved a $193 million loan for a 114 MW wind power project in Peru, the first large-scale wind project linked to the country's power grid. The project's 62 wind turbines on Peru's Pacific coast will help Peru meet rising energy demand, OPIC said in a press release. From 2000 to 2010, electricity demand grew by more than 70 percent while installed capacity grew by only 40 percent. **ContourGlobal**, a New York-based international power generation company with operations in 15 countries, is the U.S. sponsor of the project. OPIC has also financed two 40 MW solar projects in Peru, in 2011 and 2012.

Spain's Gas Natural Begins Its First Wind Farm in Latin America

Barcelona-based **Gas Natural Fenosa** has started construction of a wind farm in the southern Mexican state of Oaxaca, EFE reported Sunday. The facility is the company's first wind farm in Latin America, according to the report. The $300 million wind farm will have 234 MW of installed generating capacity and is expected to be finished in 2014. Mexico currently has 1,287 MW of installed generating capacity at its wind farms, with 1,100 MW more coming online from wind farms that are still under construction, according to EFE. Gas Natural Fenosa has 71 percent of Mexico's gas distribution market share, operating in eight of the country's states, including the capital, Mexico City.

Economic News

BRICS Nations Agree to Establish $100 Billion 'Currency Crisis Fund'

Brazil's finance minister said Tuesday that he and his peers from BRICS nations had agreed to set up a "currency crisis fund" of about $100 billion, Bloomberg News reported. Guido Mantega told reporters in Durban, South Africa, where officials are meeting this week ahead of the fifth annual BRICS summit, that the fund will help provide stability to the countries, which together hold foreign-currency reserves of $4.4 trillion, according to a Russian media report. News of the currency crisis fund was overshadowed by disagreement among finance ministers over the proposed creation of a BRICS development bank, however, Reuters reported. The presidents of Brazil, Russia, India, China and South Africa were hoping to approve the establishment of a new development bank today that would provide an alternative to the World Bank and other U.S.-based international financial institutions. The ministers on Tuesday were not able to reach agreement, however, on how the

Featured Q&A

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ing versus shareholder gain. Labor conflicts may increase if governments are forced to further appease private investment. Yet other conflicts more frequently pit indigenous, environmental and redistributive claims against the interests of central treasuries and private capital. Threats to production come not from labor, but from the tension between sovereign and rational energy policies and dependence on foreign capital with a preference for rapid monetization. Real problems are the lack of broader employment, equitable benefit distribution, economic diversification and serious thinking on environmental costs and post-hydrocarbon futures."

A **Mark S. Langevin, director of BrazilWorks in Washington:** "Rising expectations for higher prices and greater returns have moved investors to voice their displeasure of Petrobras management and interest in further privatization of the oil and gas industry in Brazil and throughout Latin America and the Caribbean. Unions have also raised their voices in parallel with these expectations. In Brazil, the petroleum workers' unions have focused this conflict on private control over oil and gas reserves and gain sharing with Petrobras. These two issues also drive labor mobilization around the hemisphere but it is in Brazil where they have sparked increasing mobilization. The Brazilian labor movement, with the 'petroleiros' as the

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"BRICS bank" would be funded and managed. "There is positive movement, but there is no decision on the creation of the bank," Russian Finance Minister Anton Siluanov told reporters.

Venezuela Launches New Foreign Exchange System

Venezuela's government on Monday launched its new foreign exchange system, Reuters reported. The Complementary System for Foreign Currency Administration, which had been previously announced, establishes an alternative for businesses to buy dollars if they are unable to receive enough of the U.S. currency at the government's official exchange rate. Companies must place bids for greenbacks at a minimum price of 6.3 bolívars each. Private economists have said dollars will sell for close to 10 bolívars apiece under the new exchange system, which is run by the Finance Ministry, central bank and **PDVSA**, the state oil company that will supply dollars to the system. The new mechanism also marks an effort to fight Venezuela's black market for dollars where the U.S. currency sells for some four times the official rate. The new system is likely to strengthen the prices of Venezuelan bonds by lowering the need for new bond issues. "Bond issuance going forward should be determined by financing needs and not used as a mechanism to provide dollars," **RBS** said in a client note, Reuters reported. "On the other hand, the decision implies additional currency depreciation and is likely to have an impact on inflation." Dollars will not go to businesses, but will be sent to those companies' suppliers abroad once the suppliers' goods arrive in Venezuela. The Finance Ministry said that the minimum amount that will be offered this week is $30,000. The administration of Acting President Nicolás Maduro hopes that the new system improves supplies of goods in Venezuela. On April 14, Maduro faces opposition rival Henrique Capriles in a special presidential election following the death earlier this month of Hugo Chávez. Critics of Venezuela's currency controls say they create several opportunities for corruption, allowing some Venezuelans to buy dollars at the official rate and then sell them on the black market.

Political News

Chile's Michelle Bachelet Announces Presidential Run

Former Chilean President Michelle Bachelet announced Wednesday that she will again run for the South American country's presidency, saying she would use another term to fight income inequality, the Associated Press reported. Bachelet, 62, returned to Chile after two years heading the United Nations' women's advocacy agency in New York. She is also a co-chair of the Inter-American Dialogue, which publishes the *Advisor*. "I have taken the decision to be a candidate," Bachelet told supporters Wednesday in the town of El Bosque. Chile "is a country tired of abuse of power and Chileans are tired of not being taken into account," Bachelet told the crowd. Bachelet was in office from 2006 to 2010 before handing power to current President Sebastián Piñera. She is seen as the only hope of the center-left opposition of winning the election on Nov. 17. A recent survey by **CEP Estudios Públicos** showed that if the election were held today, she would handily win with 54 percent support.

Teachers in Dominican Republic to Receive Pay Raise of 20 Percent

The Dominican Republic's Ministry of Education announced Tuesday that teachers are to receive an average salary increase of 20 percent, *Listín Diario* reported. Payroll costs will now make up 42 percent of the ministry's budget, according to the ministry. Carmen Pujols, the director of human resources at the ministry, said that in some cases, teachers will receive a pay increase as high as 53 percent. The Dominican Republic passed a law in 1997 requiring that public investment in K-12 education be at least 4 percent of GDP, but the government did not fully comply with the measure. A national civic campaign last year succeeded in convincing each major presidential candidate to sign a pledge that included a promise to provide more funding for education. The average teacher in the Dominican Republic working full time will make 33,241 pesos, or just over $800 per month.

POLITICAL & ECONOMIC BRIEFS

Roof Problems Force Closure of Rio de Janeiro Olympic Stadium

The João Havelange stadium in Rio de Janeiro has been closed indefinitely because of structural problems with its roof, BBC News reported Tuesday. Built only six years ago, the facility was scheduled to host numerous athletic events at the 2016 Olympics. It is currently being used as the main soccer venue in Rio, while the Maracanã Stadium is being renovated for next year's World Cup. The problem is seen as an embarrassment for Brazilian officials who have been criticized for construction problems ahead of the major sporting events.

Coffee Plant Disease to Cost Central America 1 Million Jobs

Nearly a million coffee industry workers across Central America will lose their jobs this harvesting season due to an outbreak of coffee leaf rust, Reuters reported Tuesday. A Guatemala-based consultancy, CABI, estimates 20 percent of the industry's jobs will be lost from roya, the disease that originated in Africa last century and came to the Americas in the 1970s. Honduras, Guatemala and El Salvador are suffering the steepest job losses.

Jamaican Finance Minister Seeks to Calm Fears of Delay in IMF Deal

Jamaica's Ministry of Finance is taking steps to allay fears of an extended delay in the finalizing of an agreement with the IMF to help stave off a financial crisis, the *Jamaica Gleaner* reported Sunday. With the end-of-March target date approaching, critics of Jamaica's government are nervous that the IMF board has not yet scheduled a discussion on Jamaica's letter of intent, leading to speculation last week that the deal could be delayed.

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spearhead, has historically fought for state control over hydrocarbon reserves and state ownership of Petrobras. Therefore, it is not surprising that the Brazilian Oil Workers Federation (FUP) mobilizes against the upcoming oil and gas block auctions and reminds Brazilians that this resource belongs to them, not Chevron or others. This mobilization, in part, protects Petrobras against private sector criticisms waged against the company's disappointing returns of late and serves to reproduce the political equilibrium between the state and private sector that is a lynchpin of Brazil's relative economic success in the past decade. This mobilization is also concurrent with the FUP's interest in anticipating Petrobras' future profits and efforts to recast the profit-sharing framework that also serves as a cornerstone of stable labor relations for the company. The FUP is interested in leaning the framework toward greater rewards based on operational productivity that are likely with the pre-salt production, but may not show up as dividends for investors. Labor has always challenged the oil and gas sector in Latin America, but has also been a force for stability when labor conflicts are resolved through judicial and representative institutions. In times of rising demand and high prices, it is unlikely that organized labor would rupture relations with employers. To the contrary, in Brazil the FUP is likely to achieve collective bargaining agreements that deliver up rising compensation packages to Petrobras and other drilling companies as the country increases overall oil and gas production."

> "Labor conflicts may increase if governments are forced to further appease private investment."
>
> — *Bret Gustafson*

A Manuel J. Molano Ruiz, deputy general director of the Mexican Institute for Competitiveness: "The Mexican case is fairly unique in Latin America due to the government's strict control of the energy sector. In fact, it could be argued that there is no Mexican energy market; there are two dominant entities, state-owned Pemex and electrical utility CFE, and neither of them is formally a company, in the sense that neither one has a separate balance sheet from the government. In the case of Pemex, the union participates on the board and its clout on decisions is astounding. Former President Vicente Fox tried to include independent advisors on the board, but his initiative was rebuffed. It was recently disclosed by the Mexican press that over six years, Pemex transferred 1.7 billion pesos to the union for trips, celebrations, parades and other things. Guadalupe Acosta Naranjo, a leftist politician, recently said through his Twitter account that Mexico should take Pemex back from the union, just as it took the country's oil industry back from foreign companies in 1938. The recent arrest of the teachers' union leader, Elba Esther Gordillo, sent a powerful message to union leaders, politicians, and individuals of a hybrid nature such as Carlos Romero Deschamps, the oil workers' leader, who is also a senator. Gordillo's case marked the first time in recent Mexican history that a union leader had been jailed on legitimate charges of embezzlement. Romero Deschamps will probably think twice before opposing liberal reforms to the energy sector."

> "Romero Deschamps will likely think twice before opposing liberal reforms to the energy sector."
>
> — *Manuel Molano*

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