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Mexico's Entrance into OPIC Club May Give Energy Investors More Risk Coverage

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This article discusses the benefits that OPIC can provide for insurance on investments. For the oil and gas investor contemplating entrance into Mexico's hydrocarbons industry, the OPIC insurance coverage may offer more protection against expropriation and contract disputes unique to the energy sector.

Introduction

The government of Mexico has finally promulgated the bilateral Agreement for the Promotion of Investment between the Government of the United Mexican States and the Government of the United States of America that both countries signed in San Francisco on July 2003. The international agreement will allow the Overseas Private Investment Corporation ("OPIC") to offer all its investment protection, insurance, and other available programs and services to investors setting foot on the ground in Mexico.

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Bolivia's Gas Referendum Results

President Mesa Gets His "YES" Vote in the Referendum, But What Does It Mean?

BY MARIA KIM SHIN WITH COLLABORATION FROM RICARDO INDACOCHEA
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In the midst of blockade threats, social uncertainty and unrest, on July 18th, the Bolivians peacefully – without any major incidents – and directly participated in the creation of their country's future energy policy. The "Gas Referendum" that took place earlier this month was a first in Bolivia's recent democracy. President Carlos Mesa faced many political and social obstacles in his efforts to hold this referendum, but in the end, the social consultation was carried out successfully on behalf of the president.

To legitimize the social consultation, it was first necessary to amend the Bolivian Constitution, in order to incorporate the "Referendum" as a legal institution. InFebruary, the new Bolivian Constitution was passed, providing for the Referendum in its Article 4. This gave President Carlos Mesa carte blanche to call for a "Gas Referendum." Due to the Congress' lack of consensus in pass-

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ing a Referendum Law, as provided by Article 4, President Mesa pushed through the Law by using a Supreme Decree back in April. Less than a month before July 18th – the scheduled date for the Referendum – Congress finally passed a Referendum Law, legitimizing the popular consultation, as well as answering to allegations of the unconstitutionality of the Referendum.

On May 19th, President Mesa publicly announced the 5 questions that would be asked on the Gas Referendum ballots. The questions created a new wave of criticism; the general assessment of the questions was that they were too technical as far as the language and content were concerned. Furthermore, voters noticed that two questions were conspicuously absent:

(i) Should the natural gas should be exported to Mexico through Chile or Peru for the Pacific LNG Project? and
(ii) Should the hydrocarbons sector should be nationalized?

It has been answered that these questions are broadly covered in the questions of the Referendum as further analysed below.

President Carlos Mesa stood his ground and maintained the original questions, which were the following:

Question No. 1: Do you agree with abolishing Hydrocarbons Law No. 1689, enacted by Gonzalo Sánchez de Lozada?

Question No. 2: Do you agree with the recovery by the Bolivian State of all of the hydrocarbons property at the "*boca de pozo*" (mouth of the well)?

Question No. 3: Do you agree with re-establishing *Yacimientos Petrolíferos Fiscales Bolivianos* (YPFB, formerly the state-owned oil company) and recovering as state property the shares that Bolivians have in the capitalized company, in such a manner that would enable the company to participate in all parts of the hydrocarbons productive chain?

Question No. 4: Do you agree that President Carlos Mesa utilize the gas as a strategic recourse in order to achieve useful and sovereign access to the Pacific Ocean for Bolivia?

Question No. 5: Do you agree that Bolivia should export its gas under a national policy which

(i) covers Bolivian gas consumption;
(ii) encourages industrialization of the gas sector;
(iii) charges taxes and/or royalties to petroleum companies of up to 50 percent of the value of the produced gas and petroleum; and
(iv) allocates income from the export and industrialization of gas towards education, roads and employment?

The general result of the Referendum (as of the drafting of this article, 73 percent of the votes nationwide had been accounted for) has resulted in about 60 percent support for President Carlos Mesa's questions. Below, we analyze the results for each of the questions and how they will be implemented in Bolivia's Energy Policy.

Question 1 received a 67 percent approval rate, which will result in the abolishment of the current Hydrocarbons Law. President Carlos Mesa has announced that on August 6th, he will present to Congress his new Hydrocarbons Law, and he has asked for the legislators to respect the results of the Referendum. From October 2003, when President Mesa took office, until the call for the Referendum, many different versions for a new Hydrocarbon Law have been drafted by various political parties and the Executive branch. The Executive branch's draft addressed many of the issues contained in the Referendum, such as Questions 2 and 3, as well as increasing taxes up to 50 percent for new developments in the hydrocarbons industry, but did not include nationalization of the gas. It is possible that an additional component of the new Hydrocarbons Law will be the revision of all existing agreements signed between the Bolivian State and private oil companies during the capitalization process.

Question 2 received the most favorable results, which signifies – we assume – that all future agreements entered into by the State, through YPFB, shall explicitly consider all "*boca de pozo*" (well head) hydrocarbons property to be that of the State. YPFB will be able to transfer the ownership of this gas to private companies under the terms provided for in "operation" and "joint production" contracts. This issue was already addressed in the Executive branch's new Hydrocarbons Law earlier this year. The proprietorship of the hydrocarbons at "*boca de pozo*" is interpreted as YPFB's better control over the production and redistribution of the hydrocarbons depending on the needs of the country, whether it is for exportation or for do-

mestic use. It is important to note that the MAS political party, which has thus far been a supporter of President Carlos Mesa, has declared that its interpretation of this question and the voters' approval of the question are to nationalize Bolivia's natural gas. The MAS party believes that the new law should provide for the termination of all current agreements between the Government and the petroleum companies operating in Bolivia.

Question 3 will result in the transfer of shares in the capitalized companies, that were held up until now by AFP's companies (pension fund), to YPFB so that it may use this capital to invest as an independent company in various hydrocarbons ventures. It is uncertain what the mechanism will be for the government to reacquire these shares from the AFP's, or at what cost this transfer of shares will be realized. Furthermore, given that until now, the dividends arising from the shares of the capitalized companies were used to pay into the retirement fund in Bolivia, it is unclear whether these funds will continue to be paid, if the ventures that YPFB enters into are not successful.

Question 4 has received the narrowest margin of approval, as the question not only involves Bolivia's Energy Policy, but also the nation's foreign policy towards Chile. President Mesa has brought the issue of sovereign access to the Pacific Ocean to the forefront of his administration's foreign policy. The narrow margin of approval has been a surprise to many analysts, given that one of the main issues triggering the events of last October was the issue of exporting gas through Chile and the opportunity to recover an outlet to the sea for land-locked Bolivia. Many observers say that President Mesa must reevaluate the government's aggressive policy for the recovery of sovereign sea access. Even though Bolivia has no formal diplomatic relations with its southwestern neighbor, Chile remains an important part of Bolivia's international trade environment, as well as a possible market for Bolivia's extensive natural gas resources. Currently, Chile is buying gas from Argentina, and Argentina is in turn purchasing gas from Bolivia among other sources.

Question 5 has been the most crucial question given that a negative answer would have closed off Bolivia's prospects of benefiting from its vast gas deposits. It could be said that the exploration and exploitation phase of the Bolivian hydrocarbons industry has ended and that the sector has entered the production and commercialization phase. Bolivia currently has 55 TCF of gas, and the only realistically available markets are Brazil and Argentina, which together would require a very small portion of Bolivia's gas reserves. With the positive response to this question, President Mesa has put forth projects that were on hold, such as the exportation of gas to Mexico and the United States. Similarly, he anticipates exporting gas from the coast of Peru. Furthermore, the Argentine president Nestor Kirchner has already requested the extension of the existing bilateral agreement for 10 more years.

Although the Referendum has been considered by some to be a success, it only responded to one of many issues that are plaguing Bolivian society, and as such several sectors of society have already started raising their own demands. Furthermore, it is important to mention that many Bolivians still consider the natural gas issue to be unresolved and that the real assessment of its success will be seen in the debates due to occur in Congress, where there are still struggles for power among the different political parties, and where President Carlos Mesa has no clear supporting political party. The Bolivian society as a whole is hoping for the best, but citizens are bracing themselves for the worst. Although many hope for immediate answers to their problems, economic crisis and poverty among others, the benefits, if any, from changes to the Hydrocarbons Law are at best unclear, and it is certain that these changes will not occur soon enough. Lengthy debates are expected.

For additional coverage of the Bolivian gas referendum, see pages 13-14 of this issue.

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Mexico *Risk Insurance* from page 1

OPIC is a U.S. government agency that provides political risk insurance, re-insurance and co-insurance, equity protection programs and financing to U.S. businesses investing in member countries, having supported more than $150 billion U.S. dollars worth of investments. It is aimed at complementing the U.S. private sector in managing the risks associated with foreign direct investment.

The long-awaited measure has been a pending item since the negotiation of the North American Free Trade Agreement, in which through its Investment Provisions (Chapter XI), Mexico granted a series of benefits and protections to U.S. and Canadian investors, such as assurances of free repatriation of funds, limited cases of expropriation and indemnification at commercial value, if such is the case, as well as a mechanism for resolution of disputes with the Mexican government through an ad-hoc "investor-State" international arbitration.

By allowing OPIC benefits to flow, Mexico seeks to provide an additional impulse to productive infrastructure projects, including those projects in the energy sector.

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The OPIC Agreement has been ratified in Mexico by the Senate and the corresponding notice has been given to the U.S. government on June 14, 2004, the date on which it was also published in Mexico's Federal Register (*Diario Oficial de la Federación*), thus becoming effective as of this date.

OPIC Benefits

In order to be eligible for OPIC benefits and programs, the intended project must be related to an activity authorized under NAFTA and Mexican laws for development by foreign investors. Initially, OPIC intends to support projects related to municipal infrastructure, environmental programs, housing and water infrastructure, but it is expected that with the framework provided, it may soon extend to other areas of infrastructure, such as the energy sector.

One of the main services provided by OPIC is political risk insurance. The goal of this coverage is to protect investments not only from a potential expropriation or nationalization of assets, but also from politically-driven or politically-motivated acts that are not the result of direct government action, such as the case of civil disturbances or riots, political destabilization, currency inconvertibility, among others.

As to currency, the insurance protects the investors against new currency restrictions or controls preventing currency transfer or repatriation of returns, principal and interest payments on debt, technical assistance fees and other related payments. Although as a result of NAFTA, the events in which Mexico may impose currency controls have to be extreme, the insurance coverage provided by OPIC would cover such extreme cases.

With respect to political violence, the insurance coverage protects not only the actual property, but also the loss of income or business interruption in cases of hostile actions, civil war, revolution, terrorism and similar occurrences.

OPIC offers special insurance programs for specific sectors. Some of the most important include:

(a) Oil & Gas Projects. This insurance protection is designed for expropriation and other situations arising specifically in oil and gas projects, such as the repudiation or breach of contracts by national oil companies that are host to the investment, such as oil or gas concessions, production sharing agreements or risk contracts, pure service contracts, etc. The coverage includes not only acts of the national oil company, or of the governmental authorization, in furtherance of a nationalization or expropriation, but also situations which cause the cessation of operations for extended periods, or situations of "*creeping expropriation*", that is, acts and facts which are not aimed at expropriating but whose end result is the impossibility to operate. Because of the increasing activity of U.S. companies in Mexico's energy sector, this might become one of the principal lines of activity of OPIC at a point in time. The way in which OPIC will adjust its insurance to the government procurement laws regulating the activity of PEMEX in Mexico's petroleum industry, and the type of events by PEMEX that would be covered under the insurance, is yet to be seen.

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(b) Contractors and Exporters Coverage. This coverage is aimed at protecting against the wrongful calling of guaranties or bonds, or the wrongful termination of a contract. It also protects the insured party with respect to loss of physical assets due to confiscation, or against the inconvertibility of proceeds from the sale of equipment used at the contract site.

(c) Equity Protection. The intent of this coverage is to protect against currency inconvertibility, expropriation and against damages due to political violence. The insurance covers equity investment, as well as inter-company loans and parent guaranties, among others. It covers not only equity poured into the investment vehicle, but also in-kind contributions as well.

(d) Technical Assistance Projects. Insurance coverage in this type of project covers the payment of royalties for "know-how" licensing and technology-related fees.

Insurance provided by OPIC may be long term; usually, for the length of the project. Because the intent is to cover not only the cost of the insurance, but also future earnings, coverage is provided for an amount generally greatly exceeding the amount of the investment.

In addition to insurance, OPIC has a series of lending programs, which as a result of the Bilateral Agrement, should start to become available for projects in Mexico. Programs and conditions under which a project may qualify for financing depend on issues such as the industry sector, the environmental implications, the sponsor's background, among various considerations.

OPIC Agreement Provisions

Other than allowing and implementing the ability of OPIC to provide its support services to investments being carried out in Mexico, the U.S.-Mexico Agreement that was recently promulgated does not contain many provisions that would have a direct impact on the investors. Its structure is aimed at providing tax exemptions to OPIC activities (not extended to beneficiaries of the OPIC programs of services), rules for its operation (such as, for example, a right to designate third parties who may take title to assets whenever OPIC subrogates on rights deriving from a project it has sponsored). It also provides the mechanisms for Mexico to solve its disputes with OPIC – and therefore with the U.S. government – which may be related to OPIC activities.

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Tracking Pollution Compliance in Mexico

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On June 3, 2004, the Regulations to the General Law of Ecological Balance and Environmental Protection (General Law) in the Area of Emission and Pollutant Registry (Regulations) were published in the *Official Federal Gazette*.

The General Law established an Emissions and Pollutants Registry (Registry), to be comprised of data and documents contained in environmental authorizations, reports, licenses, permits and concessions filed before or issued by the Ministry of Environment and Natural Resources (SEMARNAT), the government of the Federal District, states or municipalities. The Registry will contain an inventory of all pollutants generated in Mexico, either by source or type, to improve their tracking and to identify companies that generate air emissions, wastewater discharges and hazardous waste. Since the Registry will have declarative effects,[1] companies that furnish information should take special care to ensure that it is correct and true, Also, it will be advisable to verify whether there are any pollutants that are no longer being generated and what type of information is being provided to the Registry. Consequently, it will be necessary to verify that pollutants comply with the limits established by Mexican Official Standards (Normas Oficiales Mexicanas—NOMs), because it will now be easier for any person to have access to information regarding what a company emits, discharges or generates.

It will now be easier for any person to learn what a company emits, discharges or generates.

Reporting Obligations

Article 9 of the Regulations state that the establishment subject to reporting requirements are the following:

- those listed under Article 111 Bis of the General Law; in other words, federal stationary air emission sources;[2]
- hazardous waste generators in accordance with applicable law;
- those discharging wastewater into federal receptive bodies (not discharging into municipal or urban sewer systems).

Establishments subject to reporting requirements must submit information regarding their emissions and transfer of pollutants into the air, water, soil and subsoil and hazardous materials and waste, through an Annual Operating Report (Report), which must be submitted before SEMARNAT (either in Mexico City or before State Delegations) within the period of January 1st to April 30th of each year. The Report may be submitted in any of the following forms:

- in printed form, enclosing a magnetic disk containing the Report's electronic file;
- in electronic file, through a magnetic disk; or
- through the electronic portal to be established.

How to Measure Pollutants

The Regulations state that emissions and pollutants regulated by NOMs must be measured using methods, equipment, sampling procedures specified under such NOMs and Mexican Standards referenced by them, under the Federal Law of Measurement Units and Norms.

Emissions and pollutants that are not regulated by NOMs or whose measurements are exempt, may be estimated through commonly used methodologies such as the application of emission factors, historical data estimates, materials balance, engineering calculations or mathematical models.

Calculations and measurements related to such methodologies must be kept for five years upon submission of the Report.

Access to the Registry

The Registry will contain information on the establishment, its location and the substances that it emits, discharges and generates, making it possible for any person to have access to such information. Anyone desiring to get information contained in the Registry's database must submit a written request before SEMARNAT, in accordance with the procedure

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Recent Developments: Petróleos Mexicanos

27 New Wells Drilled in Campeche Sound

In the first six months of 2004, Petróleos Mexicanos' (Pemex) Exploration & Production subsidiary (PEP) completed drilling for a total of 27 wells in the Campeche Sound as part of its efforts to explore and improve the oil potential of the fields located in this area. Sixteen of these wells were drilled to develop the fields, while eleven wells were drilled for exploration purposes.

By drilling these wells, PEP hopes to increase hydrocarbons production in the offshore regions of the Campeche Sound, which produced 2,850,000 barrels per day (B/D) of crude and 1.558 billion cubic feet per day (Bcf/d) of natural gas from January 2004 to June 2004. Twelve of the development wells were drilled in the Cantarell and Zaap Complex, while the remaining four were drilled in the zones of Abkatán, Batab, and Sinan. Presently, 61 drilling rigs are being operated in the northeast and southwest offshore regions, an increase of 34 from 2001.

The Campeche Sound produces 83.7% of Mexico's total crude production, and over 34% of the nation's natural gas. To date, there are 360 active wells in the Basin, of which 217 are concentrated in the Cantarell field. During the first half of this year, the Offshore Drilling Division of PEP also executed major repairs on 32 wells and minor repairs on 75 others, with the goal of maintaining oil and gas exploitation in this hydrocarbons-rich region of Mexico.

Pemex 1H04 Crude Production Up 2.1% YoY

Mexico's crude oil production increased 2.1 percent in the first six months of 2004 in comparison to the same period last year, averaging 3,402,000 B/D total for its Maya, Isthmus, and Olmeca grades.

Most of the increase is attributed to the boost in the Maya heavy crude output, which averaged 2,475,000 B/D in January-June 2004, up 4.4% year-on-year. Production of Isthmus light crude also experienced an increase to 797,000 B/D in the first half of

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established under the Federal Transparency and Access to Public Government Information Law.

SEMARNAT will deny the information requested if it falls under any of the assumptions contained under Article 159 Bis 4 of the General Law, or if such information is reserved or deemed confidential by the Federal Transparency and Access to Public Government Information Law and its Regulations; in any case, SEMARNAT must state the reasons that motivated its denial.

Consequences of Non-compliance

The Regulations require establishments subject to reporting requirements to submit their Report within the period running from January 1st to April 30th of each year. The Federal Bureau of Environmental Protection (PROFEPA) will carry out inspection and verification activities to verify the information contained in the Report as well as its timely submittal.

Information submitted to SEMARNAT must be correct at all times, because providing false or incorrect data to simulate compliance is a federal crime, punishable with a prison term of one to four years,[3] aside from administrative penalties that may apply.

Even though the purpose of the Registry is to have greater control over pollutants generated in Mexico, information contained therein may be used as evidence or as support to begin a judicial or administrative procedure against different companies.

[1]Declarative effects imply that the information submitted is trustworthy and may be offered as proof in an administrative or judicial procedure.
[2]Oil and petrochemical industries, chemical, paint and ink industries, metallurgic and automotive industries, cellulose and paper, asbestos and glass industries, power generation and hazardous waste treatment.
[3]According to Article 420 Quater of the Federal Criminal Code.

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this year, up 35.2% from the same period last year. Meanwhile, Olmeca extra light crude output stayed steady at 130,000 B/D.

Crude oil production from the Campeche Sound averaged 2,850,000 B/D, up 2.9% from January-June in 2003, comprising 83.8% of national oil output. The remainder of crude output came from the southern region of the country with 472,000 B/D (13.9% of the national total) and the northern region with 80,000 B/D (2.3%). The total crude output was used to fulfill domestic energy requirements, as well as demand from abroad.

Natural Gas Up 2.8% for January - June 2004

Pemex produced an average of 4.564 Bcf/d of natural gas in 1H04, a year-on-year increase of 2.8 percent. The increase is due to the higher volumes of associated gas obtained in Pemex's onshore and offshore productive regions. The offshore areas produced 1.558 Bcf/d of natural gas (34.1% of the national total), while the southern region averaged 1.52 Bcf/d (33.3%), and the northern region averaged 1.486 Bcf/d (32.6%).

Crude Export Revenues Up $1.364B v. 2003

Oil exports generated $9.68 billion in revenues during the first half of 2004, with an average of 1,862,000 barrels of crude oil exported daily. So far, this year's export revenues exceed last year's by $1.374 billion. During the first six months of this year, PMI Comercio International exported 1,641,000 B/D of Maya heavy crude to clients in the Americas, Europe, and Asia, reaping $8.278 billion in sales. The light Isthmus crude brought in $25 million, with exports averaging 4,000 B/D. Extra light Olmeca crude exports averaged 217,000 B/D, generating $1.377 billion in revenues.

During the reference period, the weighted average price for the three grades was $28.57 per barrel, up $3.83 from last year. The bulk of the exports were directed to clients in the Americas (1,643,000 B/D), while 177,000 B/D was exported to the European market, and 42,000 B/D to markets in Asia.

Record Diesel Output Achieved in June

Last month, Pemex achieved record output levels for Pemex Diesel, production of which averaged 351,400 B/D. Pemex attributes the increased output to the improved infrastructure in the national refining system. In addition, the six-month average production of automotive, industrial, and marine diesel was 329,600 B/D, up 9.8% year-on-year. During this period, Pemex boosted petroleum product refining by 1.2% from last year's levels, reaching 1,600,900 B/D, which met demand in the domestic market. Pemex Magna and Pemex Premium brand gasolines averaged 457,000 B/D in the same period. Liquefied gas saw an increase of 4.8% in production year-on-year, to average 256,300 B/D in January through June of 2004. In addition, Pemex produced 65,000 B/D of kerosene and 111,500 B/D of other petroleum products, including asphalt, lubricants, greases, paraffin, industrial gas-oil, and coke. Fuel-oil production in June averaged 381,400 B/D, down by 49,000 B/D from June 2003, resulting from an interruption in the processing plants due to planned maintenance in the plants.

Wage Accord Signed with Labor Union

Pemex and Mexico's Oil Workers Labor Union (*Sindicato del Trabajadores Petroleros de la República Mexicana* - STPRM) signed on July 26 an agreement to revise wages for 2004-2005, with the changes effective from August 1. The accord will result in a wage increase of 4% for union members.

Company website: http://www.pemex.gob.mx

Venezuela Corocoro Oil Field to Start Output in 2H 2006

CARACAS (Dow Jones)—Venezuela's Corocoro oil field in the Gulf of Paria will begin production in the second half of 2006 at an estimated 70,000 barrels a day, said Nelson Oliveros, an infrastructure manager with ConocoPhillips (COP) in Venezuela.

"Right now we are expecting production between the third and the fourth quarters of 2006," said Oliveros on the sidelines of an oil seminar Wednesday.

Earlier this year ConocoPhillips announced it would begin drilling 14 offshore oil wells at the Corocoro field in December of this year. ConocoPhillips has a 32.5% stake in the project.

The company discovered the field in 1999, and it was declared commercial in 2002 after ConocoPhillips drilled four exploratory wells.

According to state oil company Petroleos de Venezuela (PVZ.YY), $400 million will be invested in the field by 2009.

ConocoPhillip's other partners in the field are ENI SPA (E), which has a 26% stake; OPIC Karimun Corporation with a 6.5% stake; and CVP, a subsidiary of PdVSA with a 35% stake. *By Peter Millard*

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Venezuelan Energy Developments

BY VERA DE BRITO DE GYARFAS
(TRAVIESO EVANS ARRIA RENGEL & PAZ - CARACAS)

PDVSA (Venezuela's state oil company) announced that it will implement "Norms of National Participation" in its contracting practices in all operations controlled by PDVSA, including Association Agreements and Operating Services Agreements. The purpose of these norms of national participation is to promote and develop the Venezuelan private oil industry. PDVSA expects to determine what the national capacity for provision of goods and services to the oil industry is and based on such determination will establish minimum levels of national added value (NAV) that must be included in all projects. The norms will be an internal PDVSA document, not issued via a Presidential Decree or resolution. These norms will be based on the Guidelines for Participation of National Capital in Gas Projects which are of mandatory compliance by entities holding licenses to explore for and produce offshore natural gas.

PDVSA announced that Honduras will join the Caracas Energy Treaty which contemplates special conditions for the sale of petroleum by Venezuela.

PDVSA announced that it will open a new bidding round for the granting of licenses for the exploration and exploitation of offshore natural gas in *(i)* the Gulf of Venezuela and NE Falcon (seven blocks) basically for the supply of gas to the domestic market (western part of Venezuela), and *(ii)* Blanquilla and Carupano. The timing for this bidding round is not yet determined since there are some border issues with Colombia which are still being analyzed by the Ministry of Foreign Relations.

PetroFalcon Corp. announced that it has obtained financing from the International Finance Corp., an arm of the World Bank, for up to $40 million to develop gas reserves in the Cumarebo and La Vela fields, located in the State of Falcon, Venezuela.

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PdVSA to Repair 2 Oil Tankers in Argentina in 2004

BY RAUL GALLEGOS

PORLAMAR, Venezuela (Dow Jones)—Venezuelan state oil company Petroleos de Venezuela (PVZ.YY), known as PdVSA, plans to send two large oil tankers to Argentina for maintenance work this year, the first ships to receive work under a new agreement between the two South American nations, the president of the oil company said last Wednesday.

PdVSA officials plan to send the first tanker to the shipbuilders of Rio Santiago, Argentina, in September, Ali Rodriguez, PdVSA's president, told *Dow Jones Newswires* during the Venezuela-Argentina Business Round-table on Venezuela's island of Margarita. Rodriguez declined to specify how much the repair work would cost, but said that maintenance contracts usually amount to "various millions of dollars."

The Venezuelan government is still negotiating a plan with Argentina to have Argentine workers build a fleet of tankers for PdVSA, said Rodriguez.

In recent weeks, after joining Mercosur, the South American trade partnership, Venezuela and Argentina have been in talks to create Petrosur, an oil company that would function as a partnership between PdVSA and Argentina's new national energy company ENARSA. As a result of that partnership, Rodriguez said PdVSA officials are looking to rent space for a PdVSA office in Buenos Aires, which should be up and running before the year is over.

The administration of President Hugo Chavez has prioritized trade with neighbors in South America and the Caribbean. Officials recently announced plans to create PetroCaribe, a regional oil company that helps reduce the cost of fuel for Caribbean nations.

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Venezuela Private Oil Group Waits on Heavy Oil Projects

BY PETER MILLARD

CARACAS (Dow Jones)—Private oil companies operating in Venezuela are waiting for the government to define the terms of upcoming heavy oil and natural gas licensing rounds that could lead to multi-billion-dollar investment projects, said Luis Xavier Grisanti, the president of the Venezuelan Hydrocarbons Association.

"There are opportunities if they make a specific timetable for investment," said Grisanti, speaking on the sidelines of an oil forum Wednesday. "They need to go from announcements to implementation," he said.

Officials at the Oil Ministry announced in April that the government was planning to expand existing heavy oil projects in Venezuela's Orinoco oil belt and organize bidding rounds for new projects in the area.

"One area would be expansions, where they negotiate the terms (of existing projects)," said Grisanti. "The other is ... a proposal for licenses for new blocks."

Grisanti said oil ministry officials have promised to offer interested companies "data packages" for new heavy oil projects before the end of this year.

Venezuela currently has four joint ventures in the Orinoco tar belt. The projects blend heavy crude with lighter crudes to make the heavy crude marketable.

State oil company PdVSA (PVZ.YY) says these projects currently produce 500,000 barrels per day, and that the Orinoco area has 30.7 billion barrels of oil reserves.

Grisanti said investment by private oil firms in Venezuela could reach $14 billion by 2009 if the Orinoco projects and planned natural gas projects go forward. This year private oil firms will begin drilling at the offshore Deltana natural gas fields in the east of the country, but Grisanti said the government must still work out the details of the Mariscal Sucre natural gas project, also off the coast of eastern Venezuela.

PdVSA is still in talks with Royal Dutch Shell Group (RD SC) on details of the project.

Last November the government signed a preliminary deal to develop Mariscal Sucre. Under the deal, PdVSA would have a 60% stake; Shell would hold a 30% stake; Japan's Mitsubishi Corp. (8058.TO) would hold 8%; and Venezuelan investors would hold the remaining 2%.

The government is also organizing a licensing round for seven natural gas blocks in the Gulf of Venezuela, off the western coast of the country. Officials hope to finalize details of the bidding round in early August.

Grisanti estimated 2004 private oil investment at $1 billion, with most of the spending coming from the heavy oil projects in the Orinoco area, which include Ameriven, Cerro Negro, Sincor and Petrozuata.

"We are coming from a cycle of investment that is concluding, and we plan to activate a new cycle of investment," he said.

Private companies have invested a total of $25 billion since Venezuela opened its oil industry to private investment in 1992, mainly in exploring mature oil fields and the heavy crude projects, said Grisanti.

Ecuador June Crude Output 537,549 B/D; Up 47% on Year

QUITO (Dow Jones)—Ecuador's average oil output rose 47% to 537,549 barrels a day in June from 365,735 b/d in June 2003, the Energy Ministry said last Thursday.

Oil production in June was down 2% from 529,182 b/d produced in May.

Petroecuador said it averaged 196,221 b/d in June, while private companies' oil output was 341,328 b/d.

The country's total June oil production was 16.13 million barrels, up 47% from the year-ago figure of 10.97 million barrels.

Ecuador's average oil output rose 39% to 519,886 barrels a day between January and June, compared to 374,454 b/d for the same period in 2003.

The country's total January-June oil production was 94.62 million barrels, up 39% from the year-ago figure of 67.77 million barrels.

Ecuador oil production in 2003 totaled 143.06 million barrels, 3% lower than previous year's number of 147.45 million barrels.

Oil is Ecuador's main export, and the government's main revenue earner. Oil exports in 2003 totaled $2.37 billion. *By Mercedes Alvaro*

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Ecuador's Congress Moves to End VAT Exemption for Oil Companies

QUITO (Dow Jones)—Ecuador's Congress is expected to pass legislation this week that would prohibit oil firms from claiming exemptions on the value-added tax in the future as the country tries to cap a growing wave of litigation.

In a dispute dating back to 2001, several foreign oil companies have clamoured for VAT rebates that are typically extended to exporters while the government continues to insist that the companies aren't entitled to the tax benefit.

Lawmakers gave initial approval Tuesday to legislation clarifying that manufacturers' exports are entitled to the VAT exemption but that oil companies aren't included in the group because their activity is treated as "extraction" of reserves. Congress is expected to pass the measure in a final vote on Thursday.

The legislation won't have any impact on existing demands from oil companies, including a ruling from an international arbitration panel earlier this month that the government owes U.S.-based Occidental Petroleum Corporation (OXY) $75 million.

By spelling out the tax rules more clearly, though, the government aims to prevent oil firms from demanding such rebates in the future.

Oil is Ecuador's main export and a leading source of government revenue. *By Mercedes Alvaro*

Ecuador Wins Time to Appeal $75 Million Payment to Occidental

QUITO (Dow Jones)—Ecuador has obtained a 15-day extension to appeal an international arbitration panel ruling that it owes U.S.-based Occidental Petroleum Corporation (OXY) a $75 million tax reimbursement.

The original deadline was July 29, and follows the London-based panel's July 1 ruling that Occidental is entitled to recoup $75 million in value-added tax payments.

Occidental is one of several foreign oil companies seeking VAT rebates that Ecuador's government typically extends to exporters. The dispute dates back to August 2001.

The government has argued that oil companies aren't entitled to VAT exemptions under the terms of their association contracts with state-owned Petroecuador.

Canada's EnCana Corp. (ECA) turned to international arbitrators in March of 2003, seeking $60 million, but no ruling has been handed down. Spain's Repsol YPF SA (REP) is considering taking its complaint to an international arbitration panel. *By Mercedes Alvaro*

Ecuador Oil Bill May Not Be Resubmitted by September

QUITO (Dow Jones)—President Lucio Gutierrez's proposal for a badly needed reform to Ecuador's Hydrocarbons law is now sitting in limbo, as it may not be re-submitted in September, as previously planned, the country's energy minister said on July 16.

Eduardo Lopez said there's no fixed date by which to send the oil bill back to lawmakers, and suggested that it could even been modified in the interim.

"Although the new (oil) law is vital for the country, I must recognize that the project has fallen in the political (battle) field," Lopez said. "Given the problems there have been with its approval, we'll meet with the various legislative factions to open negotiations that will permit the country to (ultimately) avail itself of a new legal" framework for the sector, he added.

Given annual oil output declines of 7%, the sector urgently needs new investment, especially as the federal government sources about 30% of its revenue from oil-related income.

Nonetheless, the government pulled its energy reform initiative from Congress on July 15, and asked lawmakers instead to focus on an executive-sponsored bill that would hike monthly pension payments.

Both the oil and pension proposals were marked urgent, but Congress is only allowed to handle one urgent bill at a time. Pensioners have been staging protests and some have undertaken hunger strikes to press their demands.

The oil bill had already encountered considerable resistance in some corners of Congress, especially as regards the amount of equity interest in projects jointly pursued by the state and private players.

By Mercedes Alvaro

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Gas Natural Puts Puerto Rico in International Growth Plan

BY ENZA TEDESCO

PENUELAS, Puerto Rico (Dow Jones)—In summer 2003, a U.S. Bankruptcy Court approved Gas Natural SDG SA's (GAS.MC) purchase of Enron Corp.'s (ENRNQ) assets in Puerto Rico. The timing could hardly have been better.

Coming off the failure to complete a EUR15-billion takeover of domestic rival Iberdrola SA (IBE.MC) in April, the Barcelona-based Gas Natural was glad to shift attention to something else. More importantly, Puerto Rico provided fertile ground for the company to stimulate its international growth.

At the crossroads between the U.S. and Latin America, this Caribbean island offered an opening into a still infant gas market, a chance to diversify into the electricity business and an expanded presence in the liquified natural gas market.

"Puerto Rico represents a great opportunity for us," said Gas Natural Chief Executive Enrique Locutura. "We are now the gatekeepers of the island's gas market."

The company snapped up Enron's 47.5% of the island's state-of-the-art Ecoelectrica power plant in October 2003 for $179 million. Co-owned by the California unit of Edison International (EIX) and by General Electric Capital Corp. (GEX.XX), the gas-fired Ecoelectrica plant provides 15% of power consumed by the 3.8 million residents of Puerto Rico.

The 18-hectare site also houses the island's sole liquefied natural gas terminal and a water desalination plant.

With a dollar-based economy growing at 3% a year, Puerto Rico could be a nice chunk of the growth in Gas Natural's earnings before interest, taxes, depreciation and amortization. The company gets 13% of EBITDA in the Americas, a figure it wants to lift to 20% by 2008.

In nominal terms, that means the region will contribute EUR500 million to Gas Natural's EBITDA target of EUR2.5 billion in 2008.

Capitalizing on linguistic and cultural affinities as well as low costs and potentially high profits, Gas Natural has been building its utility presence in Latin America since 1992, when it first invested in Argentina. It has since also become a leading gas supplier in Brazil, Colombia and Mexico.

Last year's effort to take over Iberdrola kept executives' focus on Spain, but the failure to complete the deal, which was blocked by regulators, and the realization that Spain would allow only limited growth confirmed the need to look internationally.

"If we want to grow, we have to go elsewhere," said Alberto Toca, Gas Natural's head of international operations, referring to the limited expansion opportunity at home, where it has 70% of the market.

Analysts mainly view the investment in Puerto Rico as an additional move by Gas Natural into the U.S. market, rather than into Latin America.

"The only Latin American feature Puerto Rico has is that people there speak Spanish," said Javier Suarez, a Milan-based analyst for ING. "For all other purposes the island is the U.S.'s state number 51. The island economy is entirely dollarized, it offers low levels of volatility and basically no risks."

Fernando Murillo, a Madrid-based analyst with Ahorro Corporacion, said the Puerto Rican assets should give Gas Natural a return on capital of about 10%.

"Overall, it's a good investment," he said. "The price was reasonable and Puerto Rico's gas market is relatively untapped."

The country's state power monopoly, Puerto Rico Electric Power Authority, is encouraging that to change. It wants a third of power to come from natural gas by 2012, up from less than 14% in 2002. Two years ago, about 81% of the island's power generation came from crude oil.

Gas Natural is forecasting Puerto Rico will add EUR250 million to EBITDA between 2004 and 2008, almost 13% of the Americas' contribution to EBITDA.

Gas Natural wants to become the primary gas supplier to Puerto Rico, which has no reserves of its own, but will increasingly rely on gas to fuel its power plants in coming years, said Gas Natural Chairman Antoni Brufau.

The company already has its eye on a project to build and supply a 500-megawatt combined-cycle plant in Mayaguez, in the west.

"We'll be involved in the Mayaguez project one way or another," said Secundino Munoz, Gas Natural's country manager in Puerto Rico. "We'll either enter as an investor or at least as a gas supplier."

By 2008, Gas Natural also expects to have gas-supply contracts with three other power plants in Puerto Rico, allowing for annual sales of almost 1.1 billion

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cubic meters of gas. Such volume would equal the company's sales in Colombia, with a population of some 40 million.

"We have the exclusive import rights of natural gas into the island and that gives us the possibility to supply gas to other plants," said Brufau.

He said the company's presence as an international LNG supplier and its 12 tankers ferrying gas from producers in Trinidad & Tobago, Nigeria, Algeria and Qatar will support the effort. Gas Natural is the second biggest LNG supplier - behind the U.K.'s BG Group PLC (BRG) - to the gas-hungry U.S.

Gas Natural's core shareholders include Spanish-Argentine oil company Repsol-YPF SA (REP) with a 30.8% stake and Spain's largest savings bank Caja de Ahorros y Pensiones de Barcelona (CXA.YY), known as La Caixa, with a 34.5% stake.

Bolivia Will Move Rapidly to Allocate Gas

BY ROBERT KOZAK

LIMA (Dow Jones)—Bolivian President Carlos Mesa said Friday that his country will move quickly to lock up markets for its gas deposits, even before the Congress passes a new law regulating hydrocarbons.

Bolivians on July 18 voted in favor of a five-point referendum aimed at developing the landlocked nation's vast natural gas reserves. The government plans to approve a legal framework for development of that gas.

"There is a clear mandate that the referendum gave me with five clear questions. I have the full right and obligation as president to proceed with negotiations that are of the most benefit to the nation," Mesa said in an interview with a chain of radio stations, including one in Peru.

Those negotiations are already proceeding.

Last Thursday, Argentina and Bolivia signed a preliminary accord under which Bolivian natural gas exports to its neighbor could increase by more than 50% in coming days, and which could see Argentina's gas imports rise six-fold by 2006, the *Associated Press* reported.

"What I am not going to do is to sign any contracts until we have a new law on hydrocarbons," Mesa said Friday.

"But what we have done is to advance Bolivia's intentions for a contract for an amplification of our sales of gas to Argentina. We have signed a letter of intent that has to be translated into a contract, which will be obviously signed once we have a new law on hydrocarbons," he added.

Meanwhile, Peru has been pushing for Bolivia to eventually export its gas through a Peruvian port.

A route through Chile would be shorter, but public opinion in Bolivia has been strongly opposed to the Chilean route since Bolivia lost its coastline on the Pacific Ocean in a late 19th century war with Chile.

Peruvian officials said last week that Bolivia wants to sign a letter of intent that would make Peru the route for any of its natural gas exports in the future. Bolivia could also supply gas to southern Peruvian consumers.

Peruvian and Bolivian officials are expected to hold a series of bilateral meetings in coming days, which could culminate with Mesa meeting with Peru's President Alejandro Toledo in Peru in early August.

"I will make agreements, such as has already been done with President (Nestor) Kirchner and which will be done with President (Alejandro) Toledo, and later we will make the specific contracts," Mesa said.

"Evidently we can't sign any contracts and we haven't signed any, until we have a new law, but evidently we are going to move ahead with the initiatives, such as we have done with Argentina, with Peru and with Mexico."

Mesa added that negotiations over gas use are continuing between Bolivia and Chile, with a meeting of deputy foreign ministers set for the end of this month.

He said he could eventually hold a summit with Chilean President Ricardo Lagos, but added that any gas development involving Chile was clearly tied to Bolivia's longstanding demands to regain access to the Pacific.

"The theme of gas has to do with our demands, but above all with an element of integration of energy with the south of Peru, the north of Chile and the west of Bolivia. But to go to talk with Chile evidently we will have to seek a solution beforehand to our being landlocked," Mesa said.

The referendum also showed that Bolivians support changes to tax levels on companies developing hydrocarbons, and want more state involvement, he added.

"Now we have an orientation with more state participation, the recovery in hydrocarbons at the wellhead, and an increase of royalties," he said.

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Repsol-YPF Eyes Bolivia's Tax Plans After Vote

BY SANTIAGO PEREZ AND JONATHAN HOUSE

MADRID (Dow Jones)—Alfonso Cortina, chairman of Spanish-Argentine oil company Repsol-YPF SA (REP), said last Wednesday that foreign companies operating in Bolivia will keep a close eye on the drafting of new tax laws for the energy sector.

"At this stage, what's pending is the definition of the taxation they will apply to develop the hydrocarbon sector, and the gas sector in particular," Cortina told reporters on the sidelines of an energy forum.

On July 18, Bolivians voted in a referendum to do away with a 1996 law that privatized most of Bolivia's oil-and-gas industry. Gas is crucial to Bolivia's development given that its known reserves are an estimated 55 trillion cubic feet, second only to Venezuela in the region.

Cortina said the referendum would give the government the political consensus needed to develop its energy sector.

Bolivia's Congress will use the referendum responses to draft a new hydrocarbons law that will define how the country's gas resources will be developed.

Key to the new framework will be provisions for taxation. Currently, the government's take represents more than 50% of revenue from natural gas projects, according to Cortina.

"Once the taxation is defined, we will be able to study what sort of investments to make in Bolivia," he added.

Repsol is one of the largest foreign investors in Bolivia's energy sector and a member of Pacific LNG, a consortium of three companies - Repsol YPF with 37.5%, BG with 37.5% and Pan-American Energy with 25% - which proposes exporting gas to Mexico and California via a pipeline through Chile.

The Repsol chief also defended the unpopular Chilean pipeline project as the best option from an economic and industrial point of view. However, even that option has narrow profit margins, he said.

Nine months ago, then-President Gonzalo Sanchez de Lozada was ousted amid a popular uprising, largely caused by opposition to the Pacific LNG plan. Nearly 60 people died in clashes with security forces.

President Mesa, Sanchez de Lozada's successor, called the referendum as a response to calls for outright nationalization of the gas industry.

Brazil's CVRD to Run Logistics at Ipiranga Unit

BY ADRIANA BRASILEIRO

RIO DE JANEIRO (Dow Jones)—A partnership in the petrochemical sector is uniting the world's biggest iron ore producer and Latin America's largest high-density polyethylene maker.

Brazil's Companhia Vale do Rio Doce will manage all logistics of local petrochemical company Ipiranga Petroquimica, a unit of Companhia Brasileira de Petroleo Ipiranga (PTIP4.BR), in Brazil and abroad for three years, the companies said in a joint statement last Tuesday.

CVRD, as the Brazilian mining giant is known, is also a top logistics services provider in Brazil, with a network of 9,300 kilometers of railroads, eight port terminals, apart from storage facilities in several Brazilian states. The company is responsible for 16% of all cargo transport in Brazil.

The mining company will manage Ipiranga's outsourcing contracts with 30 companies that provide packaging, transport, insurance and risk management to the petrochemical company's products. Ipiranga transports around 600,000 tons of petrochemicals per year, including products for export, the statement said.

Ipiranga and CVRD said the contract involves 90 million reals ($1=BRL2.99) worth of services that are set to start in August. According to the statement, Ipiranga is looking to cut logistics costs by 5% and increase services by 15% by bringing CVRD onboard. The contract is renewable and not exclusive.

"A partnership with a company that specializes in logistics is a strategic step for Ipiranga as we aim to excel in this area. This will allow us to focus on improving production, research and development, technical assistance and the commercial relationships with our clients," Ipiranga Petroquimica's commercial director, Eduardo Tergolina, said in the statement.

CVRD is working to boost the participation of the logistics business in its total revenue to around 16% from the current 12% in the short- to medium-term. In the first quarter, CVRD's revenue from logistics contracts reached BRL332 million, out of which transport services on CVRD's railroads totaled BRL261 million.

With a production capacity of 700,000 tons of petrochemicals per year, Ipiranga Petroquimica has five industrial plants in Brazil's southernmost state of Rio Grande do Sul. It has a 38% share of the country's high density polyethylene market and posted in 2003 a net profit of BRL190.7 million.

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PdVSA Eyes Adding Two New Domestic Refineries

BY PETER MILLARD

VALENCIA, Venezuela (Dow Jones)—Venezuelan state oil giant Petroleos de Venezuela (PVZ.YY) is studying adding two new domestic refineries that, if constructed, could each process 200,000 barrels of oil a day, said Igor Martinez, a refinery manager for PdVSA, during an oil conference Wednesday.

Martinez said PdVSA was carrying out "preliminary studies to test all the possibilities, the locations and the capacities" of the planned refineries. He said PdVSA may seek private partners to help construct the facilities.

Martinez said both refineries would be located in the east of the country, one in Sucre state and another in Bolivar state. According to slides he showed in a presentation, construction of the refineries could begin as early as 2007. The refinery in Bolivar state would cost an estimated $3 billion, and the Sucre refinery will cost an estimated $3.4 billion, according to the slides.

PdVSA has a domestic refining capacity of 1.1 million barrels a day, and the company also has a network of refineries in the U.S. and Europe.

Martinez said PdVSA also plans to add deep conversion units to two existing refineries. Deep conversion units transform low value fuel oil into higher value light products such as diesel and gasoline, while allowing the refinery to process cheaper heavy crude oil. PdVSA has said it hopes to increase the volumes of gasoline and other oil product exports to help increase revenue.

The deep conversion plant at the 200,000 b/d Puerto la Cruz refinery would cost $1 billion, while another deep conversion plant at the 140,000 b/d El Palito refinery would cost $350 million. Both projects are included in the company's $37 billion five-year investment plan.

Martinez said the Puerto la Cruz refinery recently completed the $390 million Valcor Naptha procession unit, which will increase the refinery's unleaded gasoline production by 35,000 b/d.

"We are in the process of starting (Valcor's) different units," said Martinez.

Puerto la Cruz provides gasoline for eastern Venezuela and some products for export. Venezuela is the world's fifth largest oil exporter and a major supplier of crude oil and gasoline to the U.S.

PdVSA Plans Gasoline Service Stations in Argentina

BY RAUL GALLEGOS

PORLAMAR, Venezuela (Dow Jones)—Venezuelan oil company Petroleos de Venezuela (PVZ.YY), known as PdVSA, is working on plans to create gasoline service stations in Argentina with the help of local business partners, the president of PdVSA said late Friday.

"We'll renew that long-held initiative once we have an office in Buenos Aires," PdVSA chief Ali Rodriguez, told *Dow Jones Newswires* after the close of the Venezuela-Argentina Business Roundtable on Margarita Island. "We're talking to business people in Argentina to see what we can do together," on this issue, he noted.

Rodriguez said PdVSA was exploring the possibility of establishing a footprint in Argentina through Citgo service stations, but the effort was trumped by political instability in Argentina more than a year ago.

The oil company has established a presence in various countries under the banner of Citgo and PDV, both brands controlled by Citgo International Latin America, a PdVSA subsidiary. PDV has gas stations in Guatemala and Brazil among others, while Citgo has 13,500 service stations in the U.S. alone, according to a company spokesman.

Rodriguez gave no timetable for the plan to establish gas stations in the South American nation.

The government of Venezuelan President Hugo Chavez has pursued energy and trade deals with other South American countries lately, particularly with Argentina.

Chavez renewed a $240 million contract to sell 1 million tons of diesel and gasoil and to Argentina in 2005, and signed a memorandum of understanding to have Argentine workers build ships for PdVSA.

Venezuela is the world's fifth largest oil exporter and its economy largely relies on the revenue derived from crude and gasoline sales to the U.S. and other countries every year. Critics of President Hugo Chavez and his policies say the country is now more dependent on oil exports than ever before.

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AES Gener Seeks Arbitrage vs. Argentine Gas Suppliers

BY STEPHAN KUEFFNER

SANTIAGO (Dow Jones)—U.S. utility AES Corp.'s (AES) Chilean unit, AES Gener SA (GENER.SN), has launched arbitration proceedings against Argentine gas suppliers, the company said in a letter to Chile's securities regulator made available Friday.

Gener was hit by the Argentine government's unilateral decision to reduce natural gas exports to Chile from late March to stave off a looming domestic energy crisis as both countries headed into the Southern Hemisphere winter.

While the supply of electricity in Chile has been maintained during the contingency, the move forced some power plants offline and companies and authorities to scramble to secure alternative fuels, raising costs.

Companies Gener wants compensation from include Petrolera Santa Fe S.A., Mobil Exploration & Development Argentina Inc., Atalaya Energy S.R.L., Canadian Hunter Argentina S.R.L., and Total Austral S.A., a unit of French Total SA (TOT).

The arbitrage will be handled by the international chamber of commerce and based in Buenos Aires.

Chilean Economics Minister Jorge Rodriguez had earlier said that companies were free to head to the courts to settle disputes arising from the cuts in gas supply.

It will likely take at least a year to settle the matter, and financial effects aren't yet quantifiable, Gener said in the letter.

Its decision to seek international arbitration may complicate the seemingly stabilized relationship between gas producers and the government.

The two sides fought bitterly during the early stages of the gas crisis, with Kirchner accusing them of trying to "blackmail" the government over rates and recommending that Chilean companies take Argentina producers to court if they break their contracts. However, the signing of an accord offering gradual rate hikes in exchange for minimum production commitments soothed relations.

With Gener now acting on Kirchner's earlier advice, producers may seek extra concessions from the government.

One particular issue that might come up is the gas producers' decision to suspend claims they had against the Argentine government in the World Bank's ICSID tribunal for converting rates from dollars into devalued pesos and then freezing them in 2002. Among the companies that had lodged claims is Total.

Chile Government Readies Disincentive to Gas-Fueled Electricity Generation

BY STEPHAN KUEFFNER

SANTIAGO (Dow Jones)—Chile's government is near finishing a planned disincentive for electricity generation utilizing natural gas, Economics Minister Jorge Rodriguez told reporters Tuesday.

"We're very few days away from having a proposal," and the ministry is working on the final details, Rodriguez said.

Up to 30% of power utilities' current earnings stem from payments for available, installed capacity. However, in the case of hydroelectric plants, a reduced price guarantee for capacity is given to take into account the risk of a drought.

In the future, a similar approach will be taken regarding Argentine gas to make Argentine gas shrink as a component of Chile's energy mix "to make electricity generation in Chile safer," reducing supply risks, Rodriguez said.

Chile's government has been moving to make the country's energy generation less dependent on Argentine gas, which normally supplies some 20-22 million cubic meters of gas a day - the fuel for roughly a third of Chilean power generation.

After months of denying there would be a problem, Argentina - which provides almost all the natural gas consumed in Chile - announced in late March that it was rationing gas exports as it seeks to confront an energy crisis that threatens gas and power shortages during the upcoming Southern Hemisphere winter.

Chile normally buys 90% of Argentina's gas exports, but has been forced to use other, more expensive fuels to keep the lights on, increasing costs and prices.

The changes planned by the ministry will be geared toward installed capacity and won't modify the regime governing regulated prices.

Independent of whether the proposal will be submitted to congress, it will also be discussed with legislators, the companies and technical experts "because we want to have a broad debate," Rodriguez said.

Economics Ministry website: *http://www.minecon.cl*

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JIBC Provides $210M Loan, Risk Cover for Mexican Power Plant

BY ANDREW DOWELL

NEW YORK (Dow Jones)—The Japan Bank for International Cooperation has signed a $210 million loan agreement with Electricidad Sol de Tuxpan for a 495-megawatt power plant in Veracruz state.

JBIC, the Japanese government's main overseas-financing institution, will also provide a political risk guarantee for private lenders in the project. The loan will be cofinanced by Mizuho Financial Group Inc.'s (8411.TO) Mizuho Corporate Bank, Mitsubishi Tokyo Financial Group Inc.'s (MTF) Bank of Tokyo-Mitsubishi and the Tokyo branch of Standard Chartered Bank (STAN.LN)

The plant, 250 kilometers northeast of Mexico City, will sell its output to the Federal Electricity Commission under a 25-year contract.

Mitsubishi Corp. (8058.TO) and Kyushyu Electric Power Co. (9508.TO) have stakes in Electricidad Sol de Tuxpan. The project is the fifth financed in Mexico by JBIC.

Abengoa Wins $158M CCGT Contract in Costa Rica

BY ENZA TEDESCO

MADRID (Dow Jones)—Spanish engineering and construction company Abengoa SA (ABG.MC) said last Thursday its Abener Energia unit has won a $158 million contract to build a combined-cycle power plant, or CCGT, in Costa Rica.

The 180 megawatt gas-fired plant, which will be located in Garabito on the country's west coast, will supply 10% of Costa Rica's electricity demand, the company said.

The plant will be the first CCGT in the Central American country.

Meanwhile, Instalaciones Inabensa, another of Abengoa's units, is working on three projects valued at more than $60 million in Costa Rica, which involve building electricity infrastructure, the company said.

Chile's June Electricity Output +8.5% on Year

BY STEPHAN KUEFFNER

SANTIAGO (Dow Jones)—Chilean power generation in June rose 8.5% on the year to 4,016 gigawatt-hours, Chile's national statistic institute INE said Wednesday.

Electricity generation in the SIC grid, which covers the heavily populated central region of the country, totaled 2,839 GWh during the month, or 70.7% of total electricity generation. INE didn't provide information on the percentage change in electricity generation for the SIC from the year-earlier period.

The SIC supplies electricity to the majority of Chilean homes and industries. The principal generation companies supplying energy to the grid are Empresa Nacional de Electricidad SA (EOC), AES Corp. (AES) through its Gener (GENER.SN) subsidiary, and Empresa Electrica Colbun Machicura SA (COLBUN.SN).

The government didn't break down electricity generation by individual companies.

Generators in the SING grid serving northern Chile produced 941 GWh of electricity, or 23.4% of the total, in June.

Chile's generation system has been hit for the past few months by cuts in natural gas imports from Argentina, which limited exports to offset a looming domestic energy crisis just as both countries headed into the Southern Hemisphere winter. While generation was mostly unaffected, generators and industrial gas users have had to scramble for alternative - and more expensive - fuels.

The authority said thermal plants produced 1,558 GWh in June, up 61.5% from the same month a year ago. Combined-cycle plants generated 949 GWh of all electricity, or 3.5% more than in June last year. Hydroelectric plants produced 1,509 GWh during the month, down 17.1% from the same month a year ago. While rainfall was scant over the past months, it has increased in July.

INE website: *http://www.ine.cl*

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Argentina Turns to Generators to Avoid New Energy Crisis

BY LAURENCE NORMAN

BUENOS AIRES (Dow Jones)—Argentina's government has good news and bad news for the country's generators.

The good news is that after this year's energy crisis, the government seems to have learned it must act early to resolve future problems and is seeking solutions to a potential electricity crisis flagged for 2006.

The bad news: while the government is identifying problems and solutions, it's the generators - already mired in debts after years of crisis - who are being told to pay for it.

On July 15, the government published a decree in the *Official Bulletin* that creates an "Investment Fund Necessary To Allow Increased Electricity Supply to the Wholesale Market."

On July 15, the government published a decree in the *Official Bulletin* that creates an "Investment Fund Necessary To Allow Increased Electricity Supply to the Wholesale Market."

The decree cites the conclusions of a recent report from Cammesa, the company that manages the wholesale power market, which said increases in gas transport capacity are needed by the winter of 2006 and in electricity generation and transport by 2007. Failing that, there is "a potential risk that it will be impossible to meet the growing demand for electricity," the report said.

Given the emergency situation of the wholesale market, "we are not in a position to predict an inflow in the short run of risk capital that would make the investments needed" to avoid future problems, the decree says.

The government also commits to "achieve the readaptation" of the wholesale market by 2007, the decree said. That points to the full restoration of market prices and suggests plans for an end to the rates freeze.

The decree stands in sharp contrast to the government's attitude to this year's energy crisis, which stemmed from gas production shortages. President Nestor Kirchner repeatedly dismissed talk of a potential crisis in his first months in power, saying the sector was just lobbying to end a rates freeze imposed during the 2002 economic crisis. The result was that investments stayed at the minimal levels they fell to when the crisis began. That meant Argentina could not avoid its worst gas shortages in years.

In May, the government finally accepted higher gas rates for industrial clients and agreed to more increases over coming years to resolve the crisis. Meanwhile, the country paid the price: the government imported Venezuelan fuel to plug gas shortages, gas exports were rationed and some consumers faced de facto price hikes via an energy conservation plan.

These measures seem to have taken the edge off the gas crisis for now. But on the electricity front, immediate action is needed, sector officials say.

At a recent energy conference, Francisco Mezzadri, regional representative for U.S. company CMS Energy Corp (CMS), explained that at current growth rates, power demand by 2006/2007 will outstrip the maximum capacity of Argentine generators, which has been stuck at about 103,000 gigawatt hours for a couple of years. Generation facilities were modernized in the 1990's during a wave sparked by privatization. However, Argentina's crisis and rates freeze meant investment fell away starting in 2001. As it takes several years to complete an investment in always costly generators, Mezzadri - and others - warned investment must come soon.

Argentine generators include Central Puerto SA (CEPU2.BA), Central Costanera SA (CECO2.BA) and C.T. Guemes SA (CTG.YY). Investors include CMS Energy and Duke Energy Corp. (DUK) of the U.S., Spain's Endesa SA (ELE), and Brazilian-owned Petrobras Energia SA (PC.BA).

A New Deal?

The government's main solution is to set up an investment fund, controlled by an Energy Secretariat agency.

The decree says the money for this fund will come from the "creditor agents of the Wholesale Market." Who are those creditors? Argentine generators.

Under the makeshift structure applied to the electricity sector since the government rates freeze, distributors pay generators $13 per megawatt hour - half what they paid before rates were converted from dollars into pesos, regardless of the varying costs of generation. The payments are supposed to be cleared through Cammesa. Meanwhile, generators can charge free prices for what they sell in the spot market and

for direct contracts they sign with industrial clients. Cammesa plays middleman in the spot market, receiving and doling out the cash.

Since June 2003, Cammesa has been running ever larger deficits, because the government has committed to meeting generators' minimum operating costs - a commitment it promised to maintain in the July 15 decree. As a result, Cammesa must make up the difference between the fixed rates charged to distributors and the average cost of generating each unit.

The government has lent money to Cammesa to help it cover generators' costs, but the deficit has still grown. To reduce the deficit, Cammesa has started paying out less than 100% of the money that it has taken in from generators' spot market transactions. Consequently, it has built up what the decree calls debts of "important magnitudes" with generators. The debts are in the form of promissory notes with unspecified maturity dates.

Here's the catch: instead of collecting on those debts, the decree says generators must invest some of what they're owed to increase Argentina's generation capacity. Not only must generators fund investments to avoid an energy crisis they didn't create, they must also surrender money they've been promised.

The tough demands of what one energy sector official admitted seems a "contradictory" approach may, in fact, be the basis of a broader deal. The government recently started renegotiating power company contracts and has demanded strong investment commitments from the companies, in return for gradual rate rises.

That may prove a decent bargain for generators. They would meet the government's investment demand by spending credits unlikely to be paid up for many years. In return, they get immediate rate rises. And since the decree does not define how big a "part" of their accumulated credits they must invest, the rate hikes may come at a modest cost.

Argentina Creates Trust Fund for Gas Pipeline Projects

BY WAILIN WONG

BUENOS AIRES (Dow Jones)—The Argentine government launched on July 16 a trust fund that will help finance pivotal natural gas pipeline projects designed to add 6 million cubic meters daily to the country's transport capacity by 2005.

The new pipelines, which will run for 800 kilometers and require a $400 million investment, were announced several months ago as one of many measures to confront an energy crisis that threatens major gas and power shortfalls in the coming years. Transportadora de Gas del Sur SA (TGS) and Transportadora de Gas del Norte SA (TGNO2.BA), the country's two main gas transporters, launched the tender process for the pipelines in early June. Cabinet Chief Alberto Fernandez said then that the private sector will put up most of the money for the construction, while the government will play a supporting role through the trust fund, administrated by state-owned Banco de la Nacion.

President Nestor Kirchner announced the trust fund's creation at a Government House event on July 15 but didn't say how much the government would be contributing.

"It's certain that growth in Argentina is creating the need for a better supply of energy," Kirchner said in his televised speech.

Adding 6 million cubic meters daily would be a 5% increase in Argentina's gas transportation network of 120 million cubic meters daily. TGS' 500-kilometer pipeline will run through seven provinces from the southern province of Santa Cruz to Buenos Aires. TGN will finance the construction of 300 kilometers of pipelines and also build new gas compression plants. Provinces such as Salta and Tucuman, which currently have to import gas from Bolivia to meet demand, will be connected to the new pipelines when construction is finished.

Kirchner's announcement comes on the same day the government issued a decree creating an investment fund for the power sector as well. However, this fund, which will be managed by the Energy Secretariat, will depend on contributions from Argentine generators rather than government funds.

Among other measures the government introduced this year was importing Venezuelan fuel, rationing gas exports and rolling out an energy savings plan for consumers. Cammesa, the company that manages the wholesale power market, has said that if natural gas transport capacity isn't hiked by this time next year and electricity generation and transport isn't increased by 2007, the country will face a major power shortage.

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Argentine Energy Utilities Give up Debt Talk Waiting Game

BY WAILIN WONG

BUENOS AIRES (Dow Jones)—Argentina's privatized utilities have been performing a delicate dance over the last two years, balancing the government on one side and agitated creditors on the other.

So far, debt restructurings have proved to be relatively smoother than talks with the government, and the last stragglers in the energy sector are now hurrying to put at least one part of their long nightmare behind them.

In the early aftermath of the crisis, which shoved most of the corporate sector into default, utility companies facing debt cleanups said they didn't want to restructure until they had a clearer idea of when the government would raise rates, which had been converted into devalued pesos and frozen in early 2002.

Yet that excuse disappeared as the economy recovered, other companies successfully restructured and the outlook for short-term rate increases got even bleaker. Now, analysts say, the major energy companies that still need to restructure - transporter Transportadora de Gas del Sur (TGS) and distributor Metrogas (MGS) - are pressing ahead with debt talks on creditor pressure, despite fresh uncertainty in the contentious contract negotiations.

The government's efforts to rework all 62 of the country's public service contracts by year-end 2004 were already seen as behind schedule in June, when authorities missed a deadline to have 39 agreements in place by the end of the month.

And while both the government and the utilities say they're eager to keep talking, discussions appear to be dragging. Power transporters rejected a government proposal this week because they were unhappy with conditioning future rate increases on investment commitments, a point of tension that other energy companies such as natural gas transporters are expected to echo in upcoming weeks. Meanwhile, in a move that hasn't been fully explained, the government posted an online schedule of 13 public hearings on the utility contracts, then erased the dates the next day.

On the surface, it seems TGS and Metrogas' debt cleanups are moving at the same painful crawl. TGS, which tried to restructure before it even defaulted but saw creditor talks break down over a debt-for-equity option, floated an offer in February 2003 and withdrew it in May 2003 amid moribund support.

Metrogas launched its current proposal in November but has extended it nine times since then, with creditor approval rates stalled at just over 20%. Under the kind of out-of-court debt restructurings Metrogas and TGS are pursuing, the companies need two-thirds agreement from creditors until they can file for judicial approval, which then makes the terms binding on all holders.

Jim Harper, a distressed debt analyst at Connecticut-based BCP Securities, said both companies are in intense talks with key creditor groups and will either keep extending a stale offer "until kingdom come" - as Metrogas is doing - or, in the case of TGS, launch a new proposal only when it's secured support from its most important creditors. Harper said Metrogas is still haggling with a sizable block of holdout creditors, while TGS has begun circulating a terms sheet.

"It's not that we're going to wait, but things have gotten delayed because of the lack of definition from the government," said one source close to the TGS debt negotiations who declined to comment on how close the two sides are to reaching an agreement.

There's precedent for both companies' strategies. Cable television operator Cablevision SA (CBV.YY) postponed the deadline on an initial offer 12 times in four months while it huddled with creditors. Telecom Argentina (TEO), which has the biggest debt load among Argentine corporates, took up negotiations with its ad-hoc creditor committee in January and was able to launch a sweetened debt deal - one that was immediately cheered by noteholders and analysts - five months later.

As for the pending question of utility rate increases, analysts say the likeliest solution is a mechanism in which creditors get paid early if the companies find themselves with excess cash later. This has been built into most Argentine debt restructurings, including those of Telecom Argentina and steelmaker Acindar (ACIN.BA). The latter company has made more than $100 million in early payments so far.

"All the players in these processes are trying to find the best approximation to future cash flows until something is certain," said Marta Castelli, an analyst at credit rating agency Standard & Poors in Buenos Aires.

Once TGS and Metrogas move ahead on their debt restructurings, they'll join the ranks of other utility companies that have already reached new repayment terms. Power generator Hidroelectrica Piedra del Aguila SA, a unit of French company Total SA (TOT), secured 92% creditor approval for its deal in early June

and fellow generator Central Costanera (CECO2.BA) restructured later that month.

Meanwhile, one key energy player is still lagging far behind - power transporter Transener (TRAN.BA), which controls all of the high-voltage transmission lines in Argentina and just this week rejected the government's proposed contract.

Analysts say major shuffles in its shareholding structure have thwarted any serious efforts to negotiate with creditors, though the transporter should make progress once the dust settles from the changes. Local investment group Dolphin Fund Management bought a 50% stake in Transener's holding company earlier this year. In a research note published Friday, Guillermo Lizaso of Argentine Research said final clearance from local authorities on the sale should be "imminent."

If nothing else, Metrogas and TGS' experiences could be an important motivator for Transener to hurry along on its debt.

"The companies that took the longest ended up shooting themselves in the foot," Harper said. "There's no question that the quicker you restructured in 2002, the more of a haircut you could get ... As time moved on, creditors started to say, 'Things are better - I'm not going to accept a ridiculous haircut."'

Venezuela Reassures Investors after OPIC Ruling

BY KAREN MATUSIC

WASHINGTON (Dow Jones)—Venezuelan state oil concern Petroleos de Venezuela S.A. (PVZ.YY) is taking its contract dispute with San Diego-based Science Applications International Corp. to international arbitration to reassure companies the country is a safe place to invest.

The move follows approval by the Overseas Private Investment Corp., a U.S. government agency that provides political risk insurance to U.S. companies investing abroad, of an expropriation claim filed by SAIC, an employee-owned engineering firm.

Venezuela's ambassador to the U.S., Bernardo Alvarez, said some of his country's biggest investors, including oil companies, have expressed concern about the implications of the OPIC decision.

"They did not understand the decision and are really shocked by this decision," said Alvarez, a former deputy oil minister. "They are worried about how this decision may affect them."

PdVSA lawyers and advisers held a press conference in Washington last Wednesday to reject the decision as politically motivated.

Already strained U.S. relations with the government of Venezuelan President Hugo Chavez worsened after the U.S. initially blamed Chavez for his own downfall during a failed 2002 coup, which was belatedly condemned by U.S officials.

An OPIC spokesman said the agency isn't likely to support further investments in Venezuela and said the Venezuelans have created their own bad publicity. OPIC's decision wasn't politically motivated, and Venezuelan officials were consulted on the matter over the past year and a half, he said.

"We asked them to go to arbitration, but we never received any formal answer from them," said OPIC spokesman Larry Spinelli. "By speaking through the press, they have managed to have every major publication run stories on this...There is no recollection at OPIC of any government reacting as stridently and vituperatively as Venezuela has."

Spinelli said that while OPIC coverage isn't mandatory for investors, it does serve as a barometer of a country's investment climate. Governments in emerging market countries normally prefer to settle expropriation claims and contract disputes quietly to avoid adverse publicity, he said.

OPIC ruled two weeks ago that the Chavez government expropriated the portion of a information technology joint venture owned by SAIC. OPIC agreed to pay out an insurance policy to help cover SAIC's $9.7 million losses.

PdVSA lawyers said Venezuela had abided by its contract with SAIC and accused SAIC of refusing to provide a certified financial audit of the books of the venture, known as Intesa.

"The outside auditors of Intesa have refused to certify the validity of Intesa's financial statements for 2002," said PdVSA general counsel, Rodolfo Porro. "PdVSA cannot pay SAIC or any entity based solely on guesswork and unaudited financial data."

Thomas Wilner, a Shearman & Sterling partner who is providing outside counsel to the Venezuelan government, said the decision had "no basis" in "either the facts or the law."

"This is one of the strangest decisions that I have seen in more than 30 years of practicing law in Washington," Wilner said, adding he was surprised by the "enormous political pressure" put on Venezuela "from the highest levels of the U.S. government" in a minor commercial dispute.

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Unocal Unit Sells 50% Stake in Brazilian Venture

EL SEGUNDO, Calif. (Dow Jones)—A Unocal Corp. (UCL) affiliate sold its 50% stake in a Brazilian exploration and production venture to a unit of El Paso Corp. (EP) for $61 million plus about $7 million in working capital.

Unocal Global Ventures II Ltd. sold its 50% equity interest in the jointly-held project company that owns UnoPaso Exploracao e Producao de Petroleo e Gas Ltda. to El Paso Production International Cayman Co.

The underlying assets sold represent net production of about 4,500 barrels-of-oil-equivalent per day to Unocal.

In a press release Thursday, Unocal, an independent natural gas and crude oil exploration and production company, said El Paso now owns 100% of UnoPaso.

Unocal may receive up to $19 million in potential additional payments that are contingent on attainment of certain natural gas prices and/or volume thresholds.

New York Stock Exchange listed-shares of Unocal were recently trading up 0.9%, or 35 cents, at $37.98, on composite volume of 838,800 shares. Average daily volume is 1.3 million shares. *By Agnes K. Nikoi*

Company website: *http://www.unocal.com*

Peru's Luz Del Sur 2Q Net PEN40.3M vs PEN40.8M

Luz Del Sur SAA - Lima, Peru
2Q (ending June 30, 2004)
(In the local currency, nuevo sol)

	2Q 2004	2Q 2003
Total Revenue	283.1M	294.7M
Net Income	40.3M	40.8M

NOTE:$1=PEN3.4255

LIMA (Dow Jones)—Electricity distributor Luz del Sur SAA (LUSURC1.VL) said late Monday it had net income of 40.3 million soles ($1=PEN3.4255) in the second quarter compared with PEN40.8 million in the same period a year earlier.

The decline in net income followed a drop in total revenue.

Total revenues were PEN283.1 million in the second quarter compared with PEN294.7 million in the same period in the year earlier period.

For the six-month period, net income was PEN88.2 million compared with PEN88.6 million in the same period last year.

Six-month revenues were PEN566.0 million compared with PEN592.5 million in the same period a year before.

The company released the results in a statement filed with the Peruvian securities commission, Conasev.

Luz del Sur is majority owned by subsidiaries of Sempra Energy (SRE) and by a unit of the U.S.-based Public Service Enterprise Group (PSEG). *By Robert Kozak*

PdVSA Buys Back 96% of $2.6B Debt Tender Offer

CARACAS (Dow Jones)—State oil giant Petroleos de Venezuela (PVZ.YY) bought back 96% of a $2.6 billion bond tender offer that closed on July 26, the company said in a statement Tuesday.

A total of $2.51 billion in bonds were tendered to PdVSA Finance, the financial arm of the oil company, as of Monday, up from $2.49 billion that were already tendered as of July 12. Bond holders were given an extra $1 to $3 per $100 face value for turning in their paper before the July 12 "early bird" deadline.

Bond rating agencies have criticized the tender and consent offer. Last week, Standard & Poor's Rating Services said it expects to downgrade PdVSA Finance's debt because "amendments to be made to the transaction upon completion of the tender will reduce the structural protection afforded to investors who continue to hold PdVSA Finance debt."

PdVSA officials have criticized such statements, saying that the buy back will reduce the company's debt interest payments and free up money for investment. Officials say the operation helped PdVSA reduce its total foreign debt to around $3 billion, down from $6 billion at the start of this year.

PdVSA carried out the tender amid record high oil prices. Venezuela is the world's fifth largest oil exporter and a major supplier of crude oil and gasoline to the U.S. *By Peter Millard*

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Repsol YPF 2Q 2004 Net Profit EUR555M vs. EUR493M

BY ENZA TEDESCO

Repsol-YPF - Madrid

6 Months June 30:	**2004**	**2003**
Net profit	**EUR1.08 Bln**	**EUR1.17 Bln**
Adjusted profit[a]	**1.32 Bln**	**1.41 Bln**
Operating profit	**2.12 Bln**	**2.08 Bln**

3 Months June 30:	**2004**	**2003**
Net profit	**EUR555 Mln**	**EUR493 Mln**
Adjusted profit[a]	**675 Mln**	**642 Mln**
Operating profit	**1.12 Bln**	**946 Mln**

[a] Adjusted profit before one-off items and goodwill amortization.

MADRID (Dow Jones)—Spanish-Argentine oil and energy company Repsol YPF SA (REP) said Thursday that its second-quarter net profit rose 13%, aided by higher crude oil prices and improved refining margins.

Repsol YPF said net profit rose to EUR555 million from EUR493 million in the three-month period ended June 30. Analysts surveyed by *Dow Jones Newswires* had estimated a second-quarter bottom line of EUR625 million.

The increase in crude oil prices and refining margins combined with a 1.5% quarterly increase in its hydrocarbon production offset a weaker U.S. dollar against the euro and higher tax payments.

Brent prices averaged $35.3 a barrel in the second quarter, up from $26 in the same period a year ago.

Repsol said its gas production rose 8.4% in the second quarter, boosted by a 55.5% increase in Bolivia as the company sought to satisfy higher demand in Brazil and Argentina.

Repsol's second-quarter operating profit rose just over 18% to EUR1.12 billion from EUR946 million a year ago.

Investments in the second quarter totaled EUR649 million, some 11% below the second quarter of 2003, mainly due to a stronger euro.

No major divestments were reported in the quarter, apart from EUR75 million for Gas Natural's SDG SA's (GAS.MC) disposal of a minor stake in Enagas (ENG.MC), the company said. Repsol has a 30.8% stake in Gas Natural.

Repsol's net debt level at the end of June fell to EUR5.597 billion from the year-ago figure of EUR6.424 billion.

The company's gearing narrowed to 22.6% at the end of June from 25.9% at end June 2003.

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