

## 2006 South American Oil and Gas Developments

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### 1. Introduction to Article

This article provides an overview of 2006 developments in the oil and gas sector in South America.

#### A. *Argentina*

In Argentina, the government continues to fight high demand for oil products and shortages in the local market, prompted by robust economic growth of approximately 8% and governmental restrictions on the export of these products. The government has also responded to declining production with the adoption of Law 26,154, which grants certain tax incentives to exploration and production companies who sign association agreements with the national oil company ENARSA.

#### B. *Brazil*

In 2006, Brazil re-elected Workers' Party candidate Luiz Inácio da Silva ("Lula") to a second term, bringing certainty to the power sector where Lula's policies will be continued. With respect to gas, Petrobras is reviewing the development plans of the gas rich Santos Basin in light of the nationalization of the Bolivian gas sector (some Brazilians criticized Lula for not more vigorously challenging the nationalization of Brazilian commercial interests in Bolivia). Petrobras, in addition to the other foreign investors, ultimately reached new accords with Bolivia contemplating significantly higher tax rates and less advantageous terms and conditions. Brazil is also considering a new gas law to bring greater certainty to the sector and encourage further development.

#### C. *Bolivia*

In May 2006, the government of President Evo Morales issued a decree, finalizing the nationalization of the oil and gas sector. Bolivia's decision reflects the third time it has opened the sector to private investment, only to subsequently nationalize it, symbolizing the powerful forces of petro-nationalism in the region.<sup>2</sup> In November 2006, applying the above-mentioned decree, the government, through the state-owned company YPFB, signed new Operational Agreements with the private oil and gas producers. In addition, Bolivia signed a new 20-year agreement to supply gas to Argentina.

#### D. *Peru*

In 2006, Peruvians elected Alan Garcia as its next president, replacing President Alejandro Toledo. Garcia has supported the US-Peru Free Trade Agreement, which is pending ratification before the US Congress. Garcia had previously served as president in an era of high inflation and market intervention

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<sup>2</sup> See The Economist, Oil's Dark Secret, August 12, 2006.

policies, but vowed to learn from his mistakes and narrowly defeated a left-of-center candidate supported by Hugo Chavez.

### ***E. Colombia***

Colombia, in contrast to the general trend in the region, carried out the privatization of its largest gas company, Ecogas. In addition, President Alvaro Uribe has proposed privatizing 10% of Ecopetrol, the country's national oil company. In May 2006, President Alvaro Uribe was re-elected for the 2006-2010 term, receiving 62.2% of the vote (in 2005, the Congress had approved the constitutional amendment to permit re-election). In November 2006, Colombia and the US signed a Free Trade Agreement, which is pending ratification.

## **2. Brazilian Natural Gas Market**

### ***A. Introduction***

The exploitation of natural gas in Brazil and its importance in the national energy matrix have historically been a secondary concern. However, given the global trend of increased demand for gas and fearful of the consequences of over-dependence on hydroelectric energy, the Brazilian government has recently begun to place more importance on natural gas. To this effect, recent surveys show that natural gas represents 8.8% of the national energy matrix,<sup>3</sup> and the government's stated goal is to increase it gradually so that it may become more commensurate with international levels. Furthermore, the discovery of new natural gas reserves in Brazil, the rapid rise of crude oil prices in the international market (and related search for substitutes), and the recent nationalization of gas reserves and changes in the political situation in neighboring Bolivia (and its impact on Brazil's plans to expand the Brazil-Bolivia pipeline) have prompted Brazil to support policies encouraging the domestic exploitation and consumption of natural gas.<sup>4</sup>

### ***B. ANP's 7<sup>th</sup> and 8<sup>th</sup> Round of Bids***

Given these developments, natural gas played an enhanced and arguably unprecedented role in the National Petroleum Agency's ("ANP") seventh (7<sup>th</sup>) Round of Bids for the exploitation of oilfields and natural gas reserves held in October 2005 ("7<sup>th</sup> Round") and the eighth (8<sup>th</sup>) round held in November 2006.<sup>5</sup>

### ***C. Current Situation – Proposed Gas Law***

The gas industry's major concerns derive from the fact that even though the upstream activities (exploration and production) for both oil and natural gas are very similar, the midstream activities (i.e. refining, processing, transportation, and storage) and downstream activities (i.e. distribution and reselling) of natural gas are substantially different from those of the oil industry and hence require market specific legal norms. In response to such concerns and aiming to create a more legally secure environment for national and foreign investors in natural gas in Brazil, the Ministry of Mines and Energy has announced

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<sup>3</sup> See the Ministry of Mines and Energy's National Energy Balance Sheet ("Balanço Energético Nacional") of 2005, published in 2006.

<sup>4</sup> Bolivia is the primary importer of natural gas for Brazil.

<sup>5</sup> Per Article 23 of Law No. 9478/97, the ANP grants concessions via a public bidding process for the exploration and production of natural gas. In contrast, per Article 8(v) of the Oil and Gas Law, activities such as transportation and processing, as well as the importation and exportation of natural gas, only require an authorization from the ANP, a significantly less cumbersome process.

its intention to propose a new and comprehensive gas sector law. Based on the initial announcements, this proposed law would regulate all areas of the gas chain (i.e., production, transportation, and marketing). Although the enactment of a more detailed regulatory framework for the gas sector is necessary in order to stimulate private investment in this sector, the States may oppose on jurisdictional grounds the enactment of the aforementioned proposals on the basis that Article 25(2) of the Federal Constitution provides that the States have the sole jurisdiction to organize and provide gas distribution services.

#### ***D. New Projects***

As noted above, due to the Bolivian crisis, the Brazilian Government was forced to review its policies and plans for the natural gas sector. The main change were the government's decision to be less dependent on Bolivian gas, to invest in the exploration of national reserves, and to suspend the expansion plans for the Brazil-Bolivia pipeline. The external situation has also prompted Brazil to put on hold a project regarding the feasibility of the construction of a South American natural gas pipeline to integrate the South American countries' pipeline networks. Finally, another consequence may be that Brazilian Government will re-direct its efforts to other domestic projects, such as the construction of the Amazon Forest Pipeline (linking the Urucu basin to Manaus). This facility will support the construction of a large thermal power plant to supply all the power needs for the city of Manaus.

### **3. Bolivian Gas Sector**

#### ***A. Introduction***

In July 2004, Bolivia held a binding referendum in which a majority approved the nationalization of the oil and gas sector. Subsequently, the new Law of Hydrocarbons No. 3058 of May 17, 2005 was passed. Although this law sets the foundation for the nationalization of hydrocarbons, on May 1, 2006, the government under President Evo Morales issued the "Nationalization" Supreme Decree No. 28701, through which the State effectively took control of the entire commercial and production chain of the oil and gas sector. In November 2006, applying the above-mentioned decree, the government, through the state-owned company YPFB, signed new Operational Agreements with all private oil and gas producers currently operating in Bolivia.

#### ***B. Bolivian Constitution***

The Bolivian Constitution provides that all hydrocarbons including natural gas, located in Bolivian territory are the original property of the Bolivian State. The rights to explore and exploit such resources must be granted by the Bolivian State. YPFB acts on behalf of the Bolivian State, the Ministry of Hydrocarbons represents the government, and the Superintendency of Hydrocarbons serves as the regulatory authority for the distribution of oil and gas. The Bolivian Constitution also requires that Congress approve all agreements involving the production or marketing of natural resources. The forty-four (44) Operational Agreements recently signed between YPFB and private producers are currently being reviewed by Congress. Given the favorable recently renegotiated terms, the Congress is expected to approve the agreements.

#### ***C. Hydrocarbons Law***

Although the Hydrocarbons Law No. 3058 of May 17, 2005 has been duly enacted and is in effect, some of the corresponding regulations are still being drafted. The main aspects of this law are as follows:

- (i) Article 5 (paragraph one) provides the basic new mandate that all hydrocarbons recovered at

the wellhead are for the benefit of the Bolivian State. Article 5 (paragraph two) of the Hydrocarbons Law provides that parties to joint venture agreements entered into with YPFB under the former Law of Hydrocarbons No. 1689 must convert their agreements into new forms of agreements within 180 days of enactment of the new law. As mentioned above, as of this date, all private producers have entered into new Operational Agreements with YPFB.

(ii) Article 16 of the Hydrocarbons Law reaffirms the claim of the Bolivian State to original ownership of the hydrocarbons by providing that “hydrocarbon deposits in whatever state or form they may lie, are of the direct, perpetual, and inalienable domain of the State.” No contract may confer ownership of the hydrocarbon deposits, over hydrocarbons at the wellhead, or over hydrocarbons at the point of measurement. Furthermore, per Article 16, any party to a Shared Production Agreement, Operational Agreement, or Association Agreement must deliver to the State all of the hydrocarbons produced within the established contractual term.

(iii) Articles 53 through 57 of the Hydrocarbons Law creates and regulates the “Direct Tax on Hydrocarbons” (“DTH”) applicable on the production of hydrocarbons at wellhead, measured at the point of measurement. The obligation to pay the DTH is generated at the point of measurement and the taxpayer shall be any individual or entity that has produced the hydrocarbons that are being measured.

(iv) The DTH rate is 32% of the total production of hydrocarbons measured at the point of measurement. The DTH applies in a non-progressive and direct manner, allowing no deductions or credit offsets. The DTH applies equally to the existing 18% royalty rate. Hence, both measures in effect create a combined royalty rate of 50%.

(v) According to the Hydrocarbons Law, the export of gas to worldwide spot markets is not subject to any special restrictions. As long as the gas export commitments are duly complied with, producers are free to sell (or not) their gas to any willing national or international buyer.

#### ***D. “Nationalization” Supreme Decree No. 28701 of May 1, 2006***

The “Nationalization” Supreme Decree No. 28701 of May 1, 2006 provides that YPFB must market all of the oil and natural gas by defining prices, volumes, and conditions for sale and also places this entity in control of the entire production chain.

The decree created a new tax/royalty or “participation” for YPFB in which private producers operating in the major fields of San Antonio and San Alberto would have to relinquish an additional 32% of production at the wellhead. Only three private producers (Petrobras Bolivia, Andina SA, and Total Bolivia) would have been directly affected by this measure that would have increased participation by the national oil company YPFB from 50% to 82%. However, presently, the additional 32% tax has been eliminated and all producers are contributing 50% of production to the State.

Although the rest of the private producers that operate in fields producing less than 100 million cubic feet per day will continue to contribute 50% of production and not 82% as described above, the decree permits an increase in the tax rate if a subsequent audit proves that the company has surpassed 100 million cubic feet per day. This norm also imposes a mandatory sale of shares so that YPFB will control 51% of the companies Andina S.A. (Repsol YPF), Chaco S.A. (BP), Transredes S.A. (Shell), Petrobras Bolivia Refinación S.A., and C.L.H.B. S.A.

#### ***E. New Tax and Royalty Structure***

As a result of the above-mentioned Hydrocarbons Law and “nationalization” Supreme Decree, the Bolivian tax structure for hydrocarbons has changed dramatically. The taxes are now as follows: royalties (18%), DTH (32%), income tax (25%), and withholding tax (12.5%).

#### ***F. Operational Agreements***

Supreme Decree 28701 of May 1, 2006 was the first step of the so-called “nationalization process” in which Bolivia exerts control over all of the commercial and production chain in an attempt to industrialize its hydrocarbon resources in the near future. According to this decree, private oil and gas producers had a 180-day term to enter into new forms of agreements with YPFB. This term expired on October 28, but on November 1<sup>st</sup>, 2006, the government executed forty-four (44) Operating Contracts with all of the private oil and gas companies currently operating in Bolivia. No company to date has filed an arbitration claim or suspended its operations.

The following summary describes the most important clauses of the Operational Agreements, which are now being reviewed by Congress.

(i) Private producers who have executed to the Operational Agreements (the “Producers”) must cover all costs, personnel, technology, facilities, materials and capital necessary for the execution of oil operations. YPFB shall not assume any responsibility regarding operations or their results. Producers shall be entitled to compensation from YPFB in exchange for their activities (the “Compensation”).

(ii) Title to the hydrocarbons in whatever form they may exist will in no way be conferred to Producers and will remain throughout the property of YPFB.

(iii) The term of the contract is 30 years, as of the effective date, but shall come into effect, after its approval by Congress.

(iv) Once the Producer has made a commercial discovery, it must submit a development plan to YPFB for approval. The Producer must commence upstream activities according to the development plan within 180 days of its approval.

(v) The volume and amount of net hydrocarbons must be measured and determined constantly at the monitoring points. YPFB must also verify all volumes and quality of the net hydrocarbons at the monitoring point for a further certification to the Ministry of Hydrocarbons. Such measurements shall be the basis for the payment of (1) departmental royalties, (2) national compensatory royalties, (3) participation for the Treasury, and (4) the Direct Tax on Hydrocarbons.

(vi) Compensation to the Producer shall consist of (1) sums for the reimbursement of costs and expenses and (2) direct profit, both as previously approved by YPFB. Compensation shall be paid in US Dollars. If a conflict between the parties arises with regards to the amount of Compensation, then the parties shall first try to resolve the dispute through mediation and if this fails, then the parties may invoke binding arbitration.

(vii) The Producer is required to conduct the operations on a continuous basis and in conformity with applicable laws, prudent industry practices, development plans, work programs and budgets approved by YPFB, and other terms and conditions. YPFB must provide all necessary data that the holder does not possess.

(viii) When hiring its own personnel or subcontractors, the Producer must give preference to qualified Bolivian citizens with experience in the required position. Foreign personnel may not surpass 15% of the company payroll. The Producer must include national personnel at all hierarchical levels, whether technical or managerial. Subcontractors must be chosen via public tenders.

(ix) In order to cover risks related to the performance of the operations, the Producer must obtain and maintain in full force and effect all insurance policies required in conformity with prudent industry practices. These policies must cover loss or damage to goods, materials, equipment and facilities; personal damage, third-party damage; contamination risks, oil well blow-out, and others.

(x) Within twenty (20) days of approval by Congress of the agreements, Producers must present the Compliance Guarantee to YPF. YPF shall have the right to terminate the agreement if the Producer does not obtain the bank guarantees contemplated in the contract within five days of the commencement of each phase of the initial exploration period. YPF may also terminate the contract if the holder refuses to produce the necessary volumes for supplying the internal market.

(xi) The agreement shall be subject to Bolivian law. The agreement must be executed and interpreted in Spanish. Any translation shall be made solely for convenience purposes and shall not be considered for purposes of interpretation.

(xii) Conflicts arising between the producer and YPF must first be brought before the Control and Monitoring Unit. If the disagreement is not resolved before this body, then the matter shall be submitted to the executives of the involved parties, who shall have a maximum term of ninety (90) days to reach an agreement. If no agreement is reached, then the parties may resort to an arbitration process to be held in the city of La Paz, Bolivia, in accordance with ICC Rules. An arbitration panel of three arbitrators shall be chosen and the proceeding shall be conducted in Spanish.

(xiii) The Parties renounce invoking any type of diplomatic intervention for dispute resolution.

### ***G. Economic Prospects for 2007 as a Result of Nationalization***

Prior to the nationalization of the oil and gas sector, the Bolivian State received approximately US\$250 million per year in the form of taxes and royalties from the oil and gas sector. With the passage of the new law and with the issuance of the nationalization decree, some observers are estimating that Bolivia could receive US\$1.3 billion per year in taxes and royalties.<sup>6</sup>

With these new funds, Bolivia hopes to continue to develop its hydrocarbons infrastructure. Projects such as gas to liquids,<sup>7</sup> LNG,<sup>8</sup> petrochemicals,<sup>9</sup> and new investments for exploration and production for new

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<sup>6</sup> *La Razón*, October 31, 2006. Of course, some analysts may question whether the decision to re-nationalize the industry will really benefit the country in the long-run, given the possible loss of investor confidence.

<sup>7</sup> Foreign companies have expressed an interest in deploying gas-to-liquid technologies to produce synthetic diesel fuel. Proposals range from a 10,000 barrel per day (bpd) plant to serve domestic demand to 50,000-100,000 bpd plants for export. Bolivian gas is well suited to GTL applications due to its extremely low sulfur content. See US Commercial Service, US Department of Commerce, 2006.

<sup>8</sup> A number of companies have investigated the possibility of exporting liquefied natural gas (LNG) via a Pacific port to southern California and/or Mexico. However, the US\$ 5 billion project was stopped due to social concerns about an export route through Bolivia's historical rival Chile. As of December 2004, the Bolivian Government has

markets are expected to require large investments of up to collectively US\$4 billion per year. In addition, rising gas prices and new gas supply agreements with neighboring countries, such as the contract recently signed with Argentina to export up to 27 million cubic feet of gas per day till 2025, may increase this annual investment figure.

#### **4. Colombian Gas Market**

##### ***A. Introduction***

Colombia's gas industry has four important actors: (a) the National Agency of Hydrocarbons (*Agencia Nacional de Hidrocarburos* – ANH), a governmental agency which manages the country's hydrocarbons reserves; (b) a group of private companies, including Ecopetrol, Texaco, BP and Triton,<sup>10</sup> which currently carry out the vast majority of the exploration and development of natural gas reserves, (c) the Energy and Gas Regulatory Commission ("CREG"), a governmental agency which oversees regulation in this downstream area, and (d) Ecogás, which, together with a group of other private companies,<sup>11</sup> manages Colombia's transmission system and operates gas transportation pipelines in the country.<sup>12</sup> The CREG has segmented the industry into production, transmission, distribution, and marketing sectors and regulates the system via resolutions covering matters such as production, transportation, distribution, marketing, and tariffs.

##### ***B. Ecogás Privatization***

In 2002, the *Consejo Nacional de Política Económica y Social* ("Conpes"), pursuant to Conpes document No. 3190/2002, recommended the adoption of a stable price policy and the adoption of measures to preserve the financial viability of Ecogás. Conpes followed-up this report with a new report a year later<sup>13</sup> which analyzed the need to consolidate the natural gas industry in Colombia. Conpes' recommendation was to privatize Ecogás. Ecogás operates approximately 3,644 kilometers of natural gas trunk pipelines in Colombia.<sup>14</sup> In 2004, measured by gross revenue, Ecogás was the second largest state owned company (after Ecopetrol). These financial results reflect the 2002 reforms, which granted greater autonomy to the company to be managed with a more market oriented approach. Pursuant to Decree 1404, the Government issued the rules to govern the Ecogás privatization process. In December 2006, the Empresa de Energía de Bogotá (EEB) purchased Empresa Colombiana de Gas (ECOGAS) for approximately US\$1.44 billion, exceeding the expectations of the government.

##### ***C. Acquisition of 42.97% of the shares of Promigas, S.A. E.S.P.***

The main activity of Promigas S.A. E.S. P. is the transportation of natural gas, transporting 50% of the natural gas in Colombia. Promigas also has investments in gas distribution. With Terpel, Promigas has

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been pursuing the development of gas export projects through Peru, although higher transportation costs and political instability pose important obstacles. Id.

<sup>9</sup> Petrobras has been studying the possibility of a US\$1.4 billion petrochemicals plant in Bolivia. If built, the plant would have the capacity to produce 100,000 tons of polyethylene for the Bolivian market and 500,000 tons for export to Brazil. Id.

<sup>10</sup> These companies carry out 95% of the gas production in Colombia.

<sup>11</sup> The other companies responsible for gas transportation are (i) Promigas S.A., (ii) Transoriente S.A., (iii) Transmetano, and (iv) Progasur.

<sup>12</sup> Ecogas and Promigas S.A. manage 95% of Colombia's gas transmission system. Ecogas operates gas transportation pipelines in central and southern Colombia and Promigas S.A. does so in the north of the Country.

<sup>13</sup> Conpes document No. 3244/2003.

<sup>14</sup> Ecogás' total gas transportation network, represents approximately 70% of Colombia's transportation pipeline system.

operations in the vehicular gas sectors of Ecuador, Peru, and Mexico. In December 2006, Ashmore Investments, an English investment fund, through its subsidiary Prisma Energy, purchased 33.03% of Promigas from EMHC, a former Enron subsidiary. Then, in December 2006, Prisma Energy acquired an additional 9.94% of Promigas from Corporación Financiera de Colombia (Corficolombia), an entity controlled by Organización Sarmiento Angulo.

## **5. Paraguay**

### ***A. Introduction to Paraguayan Energy Sector***

The Paraguayan energy sector is made up almost exclusively of renewable energy sources with approximately 68.6% of the gross internal supply coming from hydroelectricity, 30.9% coming from biomass (firewood, vegetable residues, and other biomasses), and 0.5% coming from oil and mineral carbons.<sup>15</sup> Paraguay is one of the largest hydroelectric producers in the world, and, given the small internal demand, it is able to export a relatively large amount. However, approximately 98% of Paraguay's electricity exports are sold to Brazil and Argentina under the terms and conditions agreed to under the Itaipú and Yacyretá treaties, respectively, at prices significantly below international market levels.

The Vice Ministry of Mines and Energy, a branch of the Ministry of Public Works and Communications ("MOPC"), is the regulatory authority for the national energy sector. The Paraguayan government plays a key role in the energy sector both as regulator and as a commercial actor. The state-owned companies acting in the energy sector are the national power company ("Administración Nacional de Electricidad" or "ANDE"), which holds a legal monopoly in the power sector, and Petróleos Paraguayos (PETROPAR), which holds the authority to industrialize oil and the legal monopoly in the importation of crude oil and diesel oil. As Paraguay does not yet produce oil or gas, the government is providing incentives for national and international investment in hydrocarbon exploration and exploitation activities.

### ***B. Paraguayan Oil and Gas Market***

The Paraguayan Constitution of 1992 provides that all hydrocarbons, and solid, liquid and gas minerals in their natural state found in the country are owned by the State. The government, however, may grant concessions for prospecting, exploration and exploitation activities, for a limited time, to public, private or mixed companies, whether national or foreign owned.<sup>16</sup> The MOPC is the public entity in charge of administering the State's hydrocarbon resources.

Prospecting permits are granted for areas of up to 2,400,000 hectares for a term of one year, which may be renewed for up to one more term. Exploration and exploitation concessions are granted by means of a contract signed with the Paraguayan State. The contract is first negotiated with the MOPC, upon whose recommendation it is approved by Decree of the Executive Branch, and finally must be passed as law by Congress in order to enter into force. Exploration concessions are granted for a term of four years, renewable for a term of two more years in batches of 40,000 hectares in a maximum area of 800,000 hectares. Finally, when the concessionaire enters the exploitation phase, the extension and location of the chosen areas must be communicated to the MOPC. Exploitation concessions are granted for a term of twenty years, renewable for a term of ten additional years. Exploitation is limited to an area not less than twenty hectares nor greater than five thousand hectares.

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<sup>15</sup> Percentages were calculated based on the "Energy Balance of the Republic of Paraguay," Preliminary Version (2005) published by the Vice-Ministry of Mines and Energy. See [http://www.ssme.gov.py/VMME/Copia%20de%20VMME\\_pese.htm](http://www.ssme.gov.py/VMME/Copia%20de%20VMME_pese.htm)

<sup>16</sup> Article 112, Paraguayan Constitution.

The current Hydrocarbons Law (Law N° 779/95) had a special tax regime with fiscal exemptions for prospecting and exploration activities, and a special tax regime for exploitation activities made up of an initial and an annual exploitation tax, according to the amount of hectares under exploitation, and depending on the number of years of the activity. However, this special regime was repealed by Law No. 2421/04 entitled the “Administrative Reordering and Fiscal Adjustment Law.” The Executive Branch has submitted to Congress a draft of a law that would reinstate the aforementioned tax regime, and clarify its scope. The law has been approved by the House of Representatives and is pending approval in the Senate.

The recent oil and gas discoveries and activities in neighboring countries (e.g. Bolivia) create interest in the oil and natural gas potential of Paraguay. The Paraguayan territory is made up of an extensive region of sedimentary basins (94.8%) with a favorable hydrocarbon potential, which is not yet productive, due in part to the government’s historic focus on hydroelectric power and the lack of continuity in exploration activities.<sup>17</sup> The government has expressed its goal of encouraging national and international investment in this sector.

Paraguay has recently signed an agreement with the Venezuelan government, whereby PDVSA will provide technical assistance in analyzing existing information regarding the possible existence of hydrocarbons in Paraguay.<sup>18</sup>

PETROPAR has exclusivity in the importation of crude oil and diesel oil, but all other petroleum derivatives are freely imported with no other restrictions other than those imposed by legal norms based on technical standards. PETROPAR owns one refinery that produces part of the petroleum derivatives needed to meet the internal demand of the country, and the rest is imported by various multinationals that operate in the market. PETROPAR does not participate directly in the marketing of fuels derived from petroleum to the end consumer. Naphtha prices have been deregulated since 1994.

The construction of various regional gas pipelines is being negotiated and one of the main objectives of the MOPC for the 2003-2008 term is to conclude the feasibility study for the transportation of gas from the Department of Tarija in Bolivia to Mariscal Estigarribia in the western region of the country known as the Chaco Paraguayo, with connections through the Paraguayan River. Alternative sources of energy such as an alcohol and biodiesel production are also being explored and encouraged by the government.

## **6. Conclusion**

The 2006 year highlighted the continued return of petro-nationalism<sup>19</sup> to Latin America. Among other countries, Ecuador, Venezuela, and Nicaragua elected or re-elected left-of-center populist governments, and other candidates with similar views ran strong presidential campaigns in Peru and Mexico. These figures are calling for an enhanced role of the state and national oil companies in an effort to recoup additional revenues and address national anxiety for the failure to keep pace with countries in other parts of the world (notably Asia and Eastern Europe) who have enjoyed more robust economic growth. Although these nationalistic trends are visible in other parts of the world, they have become particularly visible in Venezuela, Bolivia, Ecuador, and Argentina. Often times, the victims are enhanced regional collaboration and integration, the rule of law (as evidenced by recent state disputes between Brazil and Bolivia, Argentina and Chile, and Bolivia and Chile), and oil and gas production and efficiency. At the

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<sup>17</sup> Wiens, Fernando, *Síntesis del Potencial de Hidrocarburos del Paraguay*. See [http://www.ssme.gov.py/VMME/Copia%20de%20VMME\\_pese.htm](http://www.ssme.gov.py/VMME/Copia%20de%20VMME_pese.htm)

<sup>18</sup> See [http://www.mopc.gov.py/www2004/pdvs\\_a\\_101006.htm](http://www.mopc.gov.py/www2004/pdvs_a_101006.htm)

<sup>19</sup> See The World Energy Book, “A Resurgence of Petro-Nationalism,” Rodolfo Guzman, August 2006.

same time, Venezuela is using its enhanced purchasing power to develop its own regional energy initiative entitled “PetroAmerica,”<sup>20</sup> which contemplates ambitious projects (frequently with other national oil companies) such as construction of a gas pipeline to Argentina, a refinery in northeast Brazil with Petrobras, and a refinery in Cienfuegos, Cuba<sup>21</sup> with Cupet. Whether these projects, among others, are commercially viable or more politically motivated efforts, the trend highlights some of the challenges to economic growth in the region and the regional tendency to swing from one ideological extreme to another, a trend identified by Andres Oppenheimer in his book Cuentos Chinos.

Nevertheless, as Brazil and its national oil company Petrobras demonstrate, it is possible to have a strong national oil company using leading technology (e.g. deep offshore exploration), while still enjoying the benefits of foreign investment and competition. Moreover, Mexico may soon have to reevaluate its historic policy and the role of its national oil company as Pemex struggles with declining investment and production. Perhaps what the region needs is a serious social democratic movement in the respective countries in the region (akin to Chile and Brazil) which can participate in peaceful transitions of power and govern in a manner that meets the needs of its constituents and still attracts needed foreign investment. Such a development could be pivotal in transforming the region from one that exports natural resources to one that exports intellectual capital.

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<sup>20</sup> Id., p. 21.

<sup>21</sup> Per an October 2000 accord between Venezuela and Cuba, Venezuela also sells Cuba up to 100,000 barrels of oil per day at a discount of up to 40%, with US\$5 billion of oil having been delivered to Cuba since 2003. PDVSA is also building a US\$20 million electricity grid in a rural part of the island. Cuba now produces 80,000 barrels per day of oil, although the country consumes more than twice as much of what it produces, with the difference being made up by Venezuela. Cuba has signed exploration agreements with Oil & Natural Gas Corp. (India), Petroliam Nasional Bhd. (Malaysia), Repsol (Spain), and Sherritt International (Canada). See “Comrades in Oil,” Bloomberg Markets, Guillermo Parra-Bernal, December 2006.