

This Special Feature on Energy, institutional reforms and development in Latin America. was prepared for OGEL by:



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EDITORIAL

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OGEL 3 (2004) is the first issue we bring out together with our new sister service - TDM (Transnational Dispute Management) at www.transnational-dispute-management.com. OGEL will continue to carry an extensive section on transnational dispute management with particular reference to the oil, gas and energy industries, but TDM will develop general materials, not specifically related to oil, gas and energy related intelligence, on the forms, methods, strategies and implications of transnational dispute management: commercial and investment arbitration, mediation, negotiation, including the culture of arbitration, economic analysis and organisational and managerial techniques.

There are two special themes in OGEL 3 (2004): the taxation of oil, gas and energy, and energy, institutional reforms and development in Latin America.

Taxation

First, OGEL 3 (2004) focuses on tax. Taxation of oil, gas and energy has become a very specialised business, with expertise shared between accountants, lawyers and economists in particular. There are international constraints on taxation (WTO - to prevent protectionist preferences; investment treaties - to prevent expropriatory taxation and discrimination; double taxation treaties). There are now a good number of on-going large and complex international arbitrations, most of which deal with very difficult tax questions, usually where the unequal national taxation power gets into conflict with the equal-level contract. The recent Occidental-Ecuador award, for example, had to deal with the question if an exploration and production oil and gas agreement did provide, implicitly or explicitly, with refund of VAT; other ongoing disputes deal with the accounting rules in production-sharing and joint operating agreements, the impact of national tax law on such contracts and their always complex interaction.

The tax treatment of decommissioning of oil and gas facilities (with the costs arising when there is no longer serious income to offset against) is another issue that awaits adjudication and more in-depth professional examination which, at present, is virtually absent. Tax credit issues, eg the decisions of US tax courts in favour of a tax credit for Norwegian and UK additional petroleum income taxes, are only intelligible for the chosen few.

With this special issue, we introduce a discussion of tax measures, both economic, legal and from the accountancy perspective. I would be pleased to receive future contributions on these questions.

Energy, Institutional Reforms and Development in Latin America

In November 2003 specialists from different disciplines met in Mexico City to debate issues related to energy reforms at an international conference sponsored jointly by the National Autonomous University of Mexico (UNAM), the University of Grenoble and the French Ministry of Foreign Affairs.

The conference objective was to debate reforms in the electricity, oil and gas industries from a historical and institutional perspective. Multiple factors have changed the organisation of the energy industries, but not always in the ways foreseen or anticipated. The conference did not consider privatisation and foreign-investor participation as the only alternative to State monopoly in its evaluation of the inadequacies and defects of industrial organisation. Nor did it advocate a return to the integrated public monopoly, considered as a viable solution.

This special feature was edited by **Professor Angel de la Vega Navarro** (National Autonomous University of Mexico), together with **Dr Helder Queiroz Pinto Jr** (Federal University of Rio de Janeiro) and **Dominique Finon** (Senior Research Fellow in Economics of the French National Center of Scientific Research). Speakers at the conference came from Brazil, Uruguay, Venezuela, Argentina, Colombia, France, Great Britain, Switzerland, Algeria and Mexico.

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SPECIAL FEATURE: ENERGY, INSTITUTIONAL REFORMS AND DEVELOPMENT IN LATIN AMERICA

Section 1 - Introduction

Energy, Institutional Reforms and Development in Latin America - Introduction

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In November 2003 specialists from different disciplines met in Mexico City to debate issues related to energy reforms at an international conference sponsored jointly by the National Autonomous University of Mexico (UNAM), [1] the University of Grenoble and the French Ministry of Foreign Affairs, including professors, researchers, students, civil servants, businessmen, regulators and consultants. Speakers were from Brazil, Uruguay, Venezuela, Argentina, Colombia, France, Great Britain, Switzerland, Algeria and Mexico.

The conference objective was to debate reforms in the electricity, oil and gas industries from a historical and institutional perspective. Multiple factors have changed the organisation of the energy industries, but not always in the ways foreseen or expected. The conference did not consider privatisation and foreign-investor participation as the only alternative to State monopoly in its evaluation of the inadequacies and defects of industrial organisation. Nor did it advocate a come-back to the integrated public monopoly, considered as a viable solution. As Jean-Marie Martín-Amouroux stated in his inaugural address: 'Our analysis has lacked insight because it underestimated the failures, real or potential, of public enterprises sheltered from competition and subordinated to powerful social forces'.

Starting with this premise and with an eye toward the future, participants adopted a balanced approach in discussing conditions that would allow new organisational structures to contribute to efficient economic development, social equity and environmental protection. The experience of countries around the world, as well as comparisons of different Latin American countries, provided perspective for observing the effectiveness of reforms in the institutional environment of energy industries, in the context of the economic development of each country.

Presentation and discussion were organised around the following topics and questions:

- The national energy industries under the phenomena of globalisation and technological change.
- Liberalising access to national resources and privatisation: the only way to modernise the oil industry?
- Which new governance structures are required for efficient national oil companies?
- Deregulation and privatisation of electric industries: have results met expectations?
- How can reforms be adapted to the specific conditions of a given country?
- Are investment incentives efficient in deregulated industries with intensive and irregular growth?
- Nascent natural gas markets: is regional integration essential?
- Does the State still have a role to play in the development and exploitation of national energy resources?

In both Latin America and developed countries these questions are of current significance and give rise to important conceptual and analytical works. In recent years a thorough understanding of regulatory reform has been the object of numerous research, encompassing the various institutional frameworks of reform and the various agencies in charge of its implementation and the supervision of the sector. [2]

Among other things, these works show that decentralisation and the new institutions created by reforms have established new challenges, such as the necessity for greater coordination of information and decisions - an issue central to contemporary development theory.

Globalisation, Foreign Investment, Markets and Regional Integration

Beyond its historical-institutional perspective, the conference examined the results of reforms from the perspective of globalisation and from that of individual countries' institutional constants and restrictions. Some of the presentations sought a precise analysis of how the latter factor has influenced new institutions and organisational structures. The conference's setting in a country that until now has not completely followed the precepts of international institutions and think tanks on energy-industry reform, and the French example in the organisation of energy industries, put the search for new solutions in a different perspective. Could any other way than reform based on privatisation and liberalisation lead to the same end such as higher productivity and efficient development of production capacities?

Neo-liberal globalisation has categorically altered the conditions of economic development, the role played by the energy industries relative to development, and the relationship between exploitation of natural resources and property rights. The conference placed itself squarely within this reality in order to explore the manner in which globalisation has affected the energy industry and conditioned its restructuring.[3] The impact can be studied in terms of the integration of individual countries and their energy industries into the process of transnationalisation and globalisation of production and finance, with specific regional implications.

In the case of Mexico these processes and implications are profoundly linked to its growing integration with the economy of the United States, and have had effects both direct and indirect on the structure and organisation of the energy industry, the geographical location of electricity generation, and the territorial characteristics of private investment in this sector.[4] In this context the analysis of trans-frontier gas and electric connections and the installation of new electric plants on the border are of particular interest.

In the case of natural gas development, the impulse toward greater integration of markets raises questions about the convergence and harmonisation of regulatory systems in the North American free-trade zone and in other integration zones.[5] In the Cono Sur, which has tended toward a greater integration of the energy industries especially with respect to natural gas, various deficiencies and inefficiencies have developed in the coordination of energy policy, in institutional relationships, and in regulatory convergence. As a result of the insufficient governance structure characterising the integration process, proposals have surged for a Mercosur 'Secretariat of Energy' and for reconsidering the roles of the State and the private sector.[6]

New rules of access to natural resources have also developed through globalisation, accompanied by new legal bodies and treaties that facilitate investment, and these have implications for investment in the energy sector.[7] The main result is to favour foreign investment and to provide legal and economic security for it: respect for contractual obligations, especially on the part of the State; repatriation of profits in convertible currency; introduction of international arbitration, etc. In the face of these realities it is necessary to reestablish the link between natural resources, whose exploitation is claimed to be ever more free and open to private interests on the one hand, and the economic development of the producing/exporting countries on the other.

The conference confronted this issue, particularly with respect to Venezuela, but also with a view to generalising vis-à-vis other producing countries.[8] It also took up the problem of the sustainability of energy resources, emphasising their strategic and exhaustible character within the framework of geopolitics and the global petroleum economy. In this context it was suggested that future imbalance between supply and demand on the global oil market might be resolved through a conflicting redistribution of the ownership of known reserves.[9]

Lessons of the Institutional Approach

The nature of reform in different countries is influenced simultaneously by structural and institutional factors and, equally, by the manner in which macroeconomic, international and industry-specific constraints are handled. The importance of the institutional approach was recognised in the conference and utilised to evaluate the solutions that have been implemented or proposed in Latin America. In effect, 'institutions matter', as much for understanding why certain models generated in developed countries have not, in a simple transplant to other countries, had the expected results, as for developing proposals which are more adaptable to local conditions and trajectories. In his inaugural address, Dominique Finon [10] presented the lessons of the institutional approach in order to understand the role of the institutional environment in the implementation of reforms, with particular attention to the electric and oil industries.

These lessons encompassed the four following points:

- establishing the order in which reforms should be carried out (in many cases privatisation have been wrongly carried out before the installation of the new market regulation);
- the consolidation of property rights;
- the creation of effective regulatory bodies and the development of administrative capacities for implementing reform; and
- the possibility of inclusion of national industries in a regional integrated market. [11]

In the case of oil and gas producing countries which seek to attract foreign investment, the institutional approach is focused on legal, regulatory and financial conditions which makes possible reliable contractual agreements that permit new forms of access to the exploration and production of resources. Institutional

contributions also highlight the flaws and insufficiencies of procedures or timing in the specific experiences of privatisation, as in the case of Russia. [12] In this case it is interesting to observe the results and contradictions of the transposition of formal market institutions with the practices inherited from the planned economy.

When analysing reforms that do not involve the privatisation of public oil companies but the expansion of exploration and production activities, a careful analysis of conditions mentioned above is required so that neither national interests nor those of the public company are compromised. But basic questions, such as those raised by Juan Carlos Boué,[13] must be examined before a decision to open industries to foreign capital is taken, and before modifying the institutional, legal, and financial framework of the oil industry. For Boué, one of the principal points to consider is that a private oil industry cannot provide public revenue on the same scale as a state-run industry.

For Mexico this is a strong argument for the continuation of the current system. But the possibility of foreign investment cannot be evaluated only from the point of view of internal processes; it is necessary to take into account prevailing international tendencies and their implications, as much in terms of institutional as economic and technological considerations.[14] In the Mexican case in particular, the principles, strategies, and manifestations of United States' policies must be taken into account. Although the oil production of Latin America will never replace that of the Middle East, the United States has a strategic interest in diversifying its own supply. This explains the importance it attaches to full access to oil through international oil companies and the establishment of an institutional environment favourable to its interests.

While producing countries have liberalised access to their resources and privatised their oil companies, some have argued against this approach for economic, institutional, and also symbolic reasons. The conference discussed the advantages of sharing rents between oil-producing countries and international oil companies which bring capital and technological resources in order to extract a larger revenue on the one hand, versus the advantage of the State monopoly such as it exists in Mexico on the other. The question was raised in relation to the competing demands for incentives for public companies to be efficient and of governments' abilities to reinvest revenues in the development of reserves and production capacities. It appears clear that where there is potential for large government interference, privatisation alone is not a guarantee of efficiency. Concerning technological development, for example, it can also create obstacles for the coordination of research and development, as is the case of Brazil, where a partial privatisation of the oil industry took place recently.

This last point is of particular relevance for Mexico, in order for it to be able to anticipate a national oil company's behaviour when exposed to competition, even in a strategic field as important as the exploration and exploitation of oil and gas. This is indeed the case with Petrobras, a public company that, since 1995, has had good results within a new institutional and regulatory context. For Petrobras, which is a technological leader in deep-water exploration, the challenge was to continue to

develop technologically despite liberalisation and [16] the end of its monopoly in exploration, production, refining and transport of crude, derivatives and gas. The slowing down that this institutional change has had on industry innovation in Brazil has to be considered in the assessment of reform.[17] The relevance of this analysis to Mexico is evident, as are other cases in which market competition has been introduced and public monopolies seemed initially inferior to the private and competitive industrial organisation. In Mexico there have also been institutional changes, although of a more limited scope, such as the modification of the relationship between the Mexican Petroleum Institute and Pemex in R&D activities, within a new framework and certain incentives to innovate.[18]

Market Reforms and Pending Issues

While certain Latin American countries, in contrast with countries in other regions like Asia, have been particularly sympathetic to extreme market solutions in energy industries, a new consensus seems to emerge now for 'reforming the reforms'. This consensus considers that markets are more efficient only to the extent governments maintain them in harmony with the public interest.

For the electric and gas industries, the first restructurings have been characterised by market liberalisation, vertical de-integration of companies and privatisation. The key question of financing infrastructure developments has subjected Latin American countries to the recommendations of international organisations for the purpose of building credibility and confidence among private and foreign investors. Not all of these countries have proceeded in the same manner or developed the same types of organisational structures. Characteristically there is a coincidence between the existence of important oil revenues and the maintenance of public electric companies, due to the link between social compromises in the different energy industries as in Mexico and Venezuela.

Technological change, which in Northern countries has played a key role in opening institutional options through different forms of liberalisation with the help of innovation in lower-scale and less capital intensive technologies and ITs, has had an equal influence upon energy industry restructuring in Southern countries. Conversely, the specific characteristics of energy sector institutions in a country play a major role in the development of technological opportunities such as 'distributed production', which is one of the solutions to answer to the growing need for power. This is a lesson we learn when comparing the experiences of Mexico and Argentina.[19]

In relation to other Latin American countries, organisational changes in the energy industries of Mexico have not been particularly profound, due mainly to historical and institutional factors. Nevertheless, there has been some evolution. In the electric industry, for example, the integrated monopoly has evolved towards the 'single buyer' model,[20] and reforms presently proposed by the government would go even further. In this sense comparative analyses with other countries are interesting[21], both to evaluate past reforms and propose improvements to them.[22] In the case of Mexico, Jacinto Viqueira Landa proposes to install a more decentralised organisation that permits greater flexibility for confronting

new problems affecting the electric industry in order to improve efficiency and environmental protection.[23] A comparison between the French and the Mexican experiences demonstrates that institutional weakness in Mexico would present the principal challenge to reforms of the French type (preservation of the public operator's dominant position, vertical integration, third-party access to a clearly unbundled network, regulatory guarantee both of the public-service missions and of the effectiveness of competition on the industrial market-segment).[24]

To an equal extent, performances of reform are seen through the adequate development of production capacity, beside the price decrease.[25] Liberalised markets have not demonstrated this adequate development, particularly in Brazil. In such cases it is necessary to put aside the principles of competition in order that investment may occur within an environment of imperfect competition and dominant operators able to influence market prices. Furthermore, private electric companies have tended to turn their backs on techniques with high-risk investment since they are very capital intensive or technologically innovative, even when they would be the most suitable to use the natural resources and technological capacities of the country (this is the case with large hydraulic plants).[26] Finally, discussions on reforms focused on three questions that appeared to remain open:

- Could the single-buyer model be an alternative to the competitive model, being sufficiently attractive to investors and providing sufficient incentive to achieve operational improvements in national and regional companies?
- Could investment flexibility brought by decentralised production units have a value in the face of uncertain electric growth in countries subject to macroeconomic shocks?
- Could part of the answer be found in greater interconnection and integration of markets?

The presentations which dealt with the gas industry in the North or South of Latin America, showed that this objective confronts numerous obstacles, partly due to the slowness of regional economic integration. So it is with respect to the electric industries of the Cono Sur.

Does the State Still Have a Role to Play?

The development of the energy sector in Latin America was defined and oriented for decades by the central role of the State. With changes that have occurred, especially in the last decade, the State has still not found its new role. In countries like Brazil, the role of State enterprises in the construction of energy infrastructure and development of resources, centered around petroleum and electricity, was very important and stable until 1990.[27] With the market-oriented reforms of the 1990s, the energy industries were restructured and private capital acquired the central role. The State has to invent its regulatory role in order to orient the market forces and insure social equity.

The challenge for the State is now more one of coordination than of direct intervention, but questions remain about its regulatory role: what should be the efficient shape of the government's intervention in

economies which are increasingly liberalised and integrated in the global economy?[28] Liberalisation and globalisation tend to restrict the role of the State precisely when the challenges of economic development are aggravated by geopolitical and ecological dangers. A coherent political governance is required on a national and international level.

Some presentations focused on the new functions of the State in its discussion of energy-related issues in their specific national contexts. Excepting the case of Mexico in which the government is still deemed to engage in entrepreneurial activities, the regulatory function now consists in correcting the immediate flaws of a competitive framework. Emphasis is put on the administrative capacities needed to stabilise this model, and on the role of crisis in adjusting and correcting the administrative capacity and regulatory function of the State, as the answer to the Brazilian electric crisis of 2002 shows. In countries that still maintain public energy companies, efficient management of public companies will only be possible if changes occur in their relationship with the State.

It was not possible to include all countries in the conference programme. Of special importance are the study of the experiences of the 'small economies', for example the Central American and Caribbean countries. In order to fulfill this gap to some extent, we include a paper by Ma. José Paz Antolín: "Impacts of the Reform Process and the Internationalization of the Electricity Sector in Central America: a Study of the Guatemalan case" (Impactos del proceso de reformas y la internacionalización del sector eléctrico en Centro América: estudio del caso guatemalteco).

Conclusion

Contrary to what has been widely believed throughout the last decade, radical privatisation and deregulation are not necessarily the most effective ways to put an end to inefficient management and underinvestment. The time has come to *reform the reforms* and to find solutions which better fit national situations, the weak institutional environment of markets and the necessity to invest a lot of money in infrastructures. Competition must be brought in gradually, sometimes by keeping a moderate form such as the single buyer model in the electric industry. Companies should not be split automatically, the property should not be privatised in its majority if the adaptation of the organisation and its supervision can favour productive efficiency.

Priority must be given to the realisation of investment at the appropriate time to serve growing needs. In the oil and gas industry, the middle line has also to be sought to allow the efficient exploitation of resources with the presence of foreign and private firms which can afford capital, technology and place some competitive pressures on the national public companies. Here also the pendulum is stabilising in a position which considers that States have also an important place in ruling and participating in the production and commercialisation of hydrocarbons.

Developing countries may be well advised not to attempt to leapfrog to radical privatisation and market models if they wish to avoid large problems of undercapacity and uncontrolled rent absorption by private companies in the different energy industries. A third way, a gradual reform path, is emerging by trial and error, and which also remains a necessity for correcting the limits of the former public model.

Footnotes

[01] This international conference took place November 5-7, 2003. Its realisation was supported by the Economic Department, the Engineering Department, the Energy Program and the Energy Research Center of the National Autonomous University of Mexico. Also supported this International Conference the French embassies in Mexico, Brazil and Venezuela. On behalf of the University of Grenoble participated, in a particular way, the team of the Institute for Energy Economics and Policy (IEPE/CNRS), now the Département Énergie et Politiques de l'Environnement, EPE-LEPII of this University.

[02] Helder Queiroz Pinto Jr. (Grupo de Energia del Instituto de Economia / Universidade Federal do Rio de Janeiro), "Institutional Designs and Regulatory Reforms in the Energy Industries".

[03] Jean-Marie MARTIN-AMOUROUX, "La restructuration des industries de l'énergie dans la mondialisation économique 1970-2000"

[04] María Teresa Sánchez Salazar, José María Casado Izquierdo, Eva Saavedra Silva, (Instituto de Geografía, UNAM), "La inversión extranjera en el sector eléctrico en México: antecedentes, características y estructura territorial".

[05] Alberto Elizalde Baltierra, (Petróleos Mexicanos, PEMEX), « Le marché nord-américain du gaz naturel: l'articulation du Mexique ».

[06] Edmar Luiz Fagundes de Almeida, Nicholas Trebat (Instituto de Economia - Universidad Federal de Rio de Janeiro), "Drivers and barriers to cross-border gas trade in the Southern Cone".

[07] Angel de la Vega Navarro (Facultad Economía - UNAM), "La industria petrolera mexicana en el marco de las tendencias globales del cambio institucional, organizacional y tecnológico".

[08] Jesús Mora Contreras (Departamento de Economía, Universidad de Los Andes, Mérida, Venezuela), "Recursos naturales y desarrollo: El caso venezolano. Revisión de la literatura".

[09] Carlos Guillermo Álvarez (Universidad Nacional de Colombia), "La situación internacional y el petróleo en Colombia".

[10] « L'apport de l'économie des institutions à la définition des nouveaux cadres réglementaires ».

[11] Jorge Islas (Centro de Investigación en Energía, UNAM), Philippe Menanteau (Departement d'Économie et Politique de l'Énergie, LEPII-EPE, Université Pierre Mendès France), « La production distribuée d'électricité au Mexique et en Argentine : quelles sont les nouvelles perspectives associées aux réformes institutionnelles du secteur électrique ».

[12] Catherine Locatelli et Dominique Finon (EPE-LEPII (ex-IEPE), CNRS/Université de Grenoble), « Privatisation pétrolière et environnement institutionnel : l'exemple russe»

[13] Juan Carlos Boué (Oxford Institute for Energy Studies), "¿Eficiencia o ingreso fiscal? el verdadero desafío para las grandes empresas petroleras estatales".

[14] Angel de la Vega Navarro, Op. Cit..

[15] Pierre Noël (Centre Français sur les Etats-Unis, Institut Français des Relations Internationales), «The United States and Latin American Oil. A Case Study in Normative International Economic Policy»

[16] André T. Furtado (Department of Science and Technology Policy, Institute of Geosciences-UNICAMP), "Institutional changes and innovation in the Brazilian petroleum industry".

[17] André T. Furtado (Department of Science and Technology Policy, Institute of Geosciences-UNICAMP), "Institutional changes and innovation in the Brazilian petroleum industry".

[18] Jaime Aboites Aguilar (Universidad Autónoma Metropolitana-Xochimilco), Tomás Beltrán Oviedo (IMP), Patricia Pérez Romo (IMP), Manuel Soria López (UAM-Xochimilco), "Transformaciones de las relaciones entre Pemex y el IMP. La experiencia de innovación tecnológica de los catalizadores".

[19] Jorge Islas (Centro de Investigación en Energía, UNAM), Philippe Menanteau (Departement d'Économie et Politique de l'Énergie, LEPII-EPE, Université de Grenoble), « La production distribuée d'électricité au Mexique et en Argentine : quelles sont les nouvelles perspectives associées aux réformes institutionnelles du secteur électrique ? ».

[20] O. Sarahí Ángeles Cornejo (Instituto de Investigaciones Económicas- UNAM), "Los efectos del TLCAN en los cambios de la organización de la industria eléctrica en México".

[21] Beno Ruchansky (Instituto de Ingeniería Mecánica y Producción Industrial de la Universidad de la República, Uruguay), Daniel Bouille (Fundación Bariloche, Argentina), "Los sistemas eléctricos de Argentina y Uruguay: dos senderos diferentes en la búsqueda de la sustentabilidad".

[22] Jacinto Viqueira Landa (Facultad de Ingeniería, UNAM), "¿Reorganización o desorganización de la industria eléctrica mexicana?"

[23] Gerardo Serrato Ángeles (División de Postgrado, Facultad de Ingeniería - UNAM) "Inercia institucional y reorganización industrial: el caso de la industria eléctrica en Francia y México"

[24] Jorge Islas, Philippe Menanteau, op.cit.

[25] Clarice Ferraz et Franco Romerio (Université de Genève, Suisse), Réorganisation des marchés, ressources hydrauliques et crises électriques : comparaison des expériences brésilienne et norvégienne

[26] João Lizardo de Araújo, Adílson de Oliveira (Instituto de Economia da Universidade Federal do Rio de Janeiro), "Brazilian Energy Policy: Changing Course?"

[27] Víctor Rodríguez Padilla (Facultad de Ingeniería, UNAM), "Política energética en los países en desarrollo, ¿qué finalidades y modalidades de la intervención de los poderes públicos en economías cada vez más liberalizadas y globalizadas?"

Section 2 - Inaugural Addresses

Energy and Development: 40 Years of Exchanges between Latin America and France

Jean-Marie Martin-Amouroux, Université Pierre Mendès France, martin.amouroux@wanadoo.fr

English Summary

Half a century ago, Raúl Prebisch and his colleagues at the Economic Commission for Latin America (ECLA) showed that structural dynamics matter more than the working of markets in understanding economic development. The recent emergence of the information industries has not weakened the central role of the energy industries in such dynamics. Resulting from the ability of energy sources to renew their technologies of production, transport and utilisation depends, indeed, the availability of these resources, which is indispensable to all economic activity. Energy must be available in adequate amounts, at fair prices and be environmentally sound.

These dynamics, confirmed in the historical research of Nathan Rosenberg, are more than ever at the core of an understanding of sustainable development. This is true to such a degree that even the World Bank has adopted them when it speaks of economically efficient, socially equitable and ecologically viable development. But how can the structure of these industries be made to evolve in order for these objectives to be achieved?

Under the dual effect of liberal globalisation and the limits of the welfare state, the governance of large, publicly-owned public energy enterprises requires changes. Nevertheless, the alternative to 'everything being public' is not 'everything being private' and market forces, as the only instruments for coordination of economic agents.

More than ever, our societies have to learn how to combine the ability of energy enterprises, public and private, to be innovative with an institutional framework capable of guiding these innovations towards sustainable development.

This inaugural address is available in French and Spanish.

[Full article here](#)

The Contribution of Institutional Economics to the Definition of New Regulatory Frameworks

Dominique Finon, CNRS, Dominique.Finon@upmf-grenoble.fr

English Summary

This introductory paper to the colloquium focusses on the contribution of institutional economics to the debate on the adequacy of market reforms in energy industries in the particular institutional environments of each country and their level of economic development. Understanding that 'institutions matter' has been the great discovery in the development of economics in the last decade. In the network industries such as the oil industry, the reforms must take into account the capabilities of the administration, the credibility of the regulation and the political stability for enforcing commitments to the large-scale investments which are needed in the infrastructure industries.

In the electricity industry, there is on the one hand the necessity to coordinate the stages of the reform (introduction of market rules, privatisation) in order to correct the competition model which may be inadequate to provide a framework for the development of important capacities. Conversely in the oil industry, with governmental capability to control rents, it could be efficient to up open access to the resources to benefit from financial and technological resources. A recent contribution of the new institutional economics is to underline the importance of the social acceptability for the viability of reform

This article is available in French and Spanish.

[Full article here](#)

Section 3 - Oil & Gas Reforms and Development

Natural Resources and Development: Curse, Blessing and Other Causes

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English Summary

One of the most surprising characteristics of elite Venezuelan contemporary society is that the more this society is aware of the country's abundant endowment of natural resources, e.g. oil and gas, the worse are the economic and political problems that arise in order to take advantage of them! In contrast, when in the past the elite considered the resources depletable, the country showed high rates of economic growth.

These two periods of Venezuela's recent economic development synthesize perfectly the two theoretical visions that sustain the academic, political and institutional perspectives, namely that the endowment of natural resources is either a blessing or a curse.

This paper intends to show, in reviewing the literature, that both visions are correct, but also that both visions suffer from a common defect. They place their emphasis on a mono-causal explanation (the abundance or the shortage of resources), when a multi-causal explanation seems to be much more useful to explain how resources affect the development of nations.

This article is available in Spanish.

↳ [Full article here](#)

Efficiency or Fiscal Revenue? The True Challenge Facing the Large Oil State Companies

Dr. Juan Carlos Boué, Oxford Institute for Energy Studies, juanCarlos.boue@oxfordenergy.org

English Summary

This paper sets out to quantify the key factors that set apart national oil companies (NOCs) from large oil exporting countries from private oil companies, in terms of resource endowment, production economics and revenue generation capability. It goes on to identify what are the relevant criteria for assessing the performance of NOCs: fiscal or entrepreneurial. It concludes that private oil companies cannot compete with NOCs in generating tax revenues for large oil exporting countries.

Although the slack in operations of many NOCs is very high, noticeable improvements are possible with even modest efforts. In contrast, the taxation faced by NOCs is so high that it is inconceivable that any private party would accept to pay comparable rates, meaning that changes in the institutional framework in countries like Mexico or Saudi Arabia will inevitably lead to lower fiscal revenue per

barrel produced. So although huge sums of money are dissipated by the inefficient operations of NOCs, these sums are much smaller than those that oil exporting countries stand to lose if they scrap their NOCS in order to adopt flexible and investor friendly fiscal regimes (if the ratio of fiscal take to gross income in Mexico fell by only 4 percentage points, the fiscal loss would be greater than the total losses declared by PEMEX Refining).

Moreover, it has been empirically proven that even if private investment leads to a higher short-term output, governments will be unable to compensate for the lower per barrel taxation because production increases by a large producer elicits a similar response from other producers that affects the international price of oil very negatively.

This article is available in Spanish.

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The Mexican Oil Industry in the Global Framework of Institutional, Organizational and Technological Trends

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English Abstract

In the international oil industry new rules are coming into play, particularly in E&P, and technical progress is changing the way things are done. There are also new types of interaction between technologies and the forms of industrial organization that seek to present a "single best way": free access to resources and the instauration of a free market, openings to private capital and privatization of state oil companies.

Mexico has maintained its oil industry closed to foreign investment as a result of historical and institutional factors. If the industry remains closed, will it be able to keep up with technical progress, continue to play a role in the international oil market and efficiently supply an economy which is becoming more integrated into global markets?

In facing these challenges, both from the point of view of property rights and of the effects of technical changes, it has to be taken into account that oil - and everything related to it, regardless of its meaning in economic and energy terms - is still a key element of social and institutional cohesion in Mexico. It is against this background that the country's energy industry has to reorganize and adapt.

As the environment becomes more competitive, it is conceivable that there will soon be three main players in the Mexican oil industry: PEMEX, service companies and the international oil companies. It is essential, in this light, to clarify the new regulatory framework in which PEMEX will work, because many things will obviously change from the legal, fiscal and regulatory points of view.

Rather than drastic changes, gradual ones are more likely to take place, separating clearly what has to do with a more efficient management of PEMEX -a priority task which has to do with the nature of its relationship with the state- and with openings to foreign investment. If the industry is opened up without simultaneous, profound changes occurring in PEMEX's relationship with the state, this could be very damaging to the national oil company.

This article is available in Spanish.

[Full article here](#)

Institutional Changes and Innovation in the Brazilian Petroleum Industry

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English Abstract

The institutional change that has taken place in the legislation regarding petroleum, which has brought Petrobras' position as a monopoly to an end, has also brought with it important implications in the dynamics of the sectoral system of Brazilian innovation in the petroleum industry. During the phase of monopoly (Phase I), the institutional set-up guaranteed that a certain convergence would be reached among the different functions in the sectoral system of innovation, for Petrobras financed, coordinated, carried out and made use of the new knowledge.

At the same time, this system had certain limiting factors, seeing as it was a network dominated by one sole player. With the breakdown of the monopoly (Phase II), the number of actors involved in this system increased, as did the problems of coordination among them.

This study aims to analyse some of these problems regarding coordination, shedding more light on CTPetro, whose function is to provide funds to foster the efforts in R&D and to define and link together the strategies of the actors in the sectoral system of innovation.

Evidence has pointed towards a tendency in the re-appearance of a 'supply side' logic, despite governmental policies that seek to link universities/research institutes to companies.

This article is available in Portuguese and English.

[Full article here](#)

The Changing Relationship between PEMEX and IMP (Mexican Institute of Petroleum): the Experience of Technological Innovation of Catalysts

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English Summary

An institutional variation that took place at the end of the 1990s has restructured the framework of the relationships between the Federal Government, the Instituto Mexicano del Petróleo (IMP) and Petróleos Mexicanos (PEMEX). It brought about a change in the way research activities and inventive capacity were carried out, as well as the commercialisation of catalyst innovations.

The context of this transformation is the North American Free Trade Agreement (NAFTA).

The aim of this paper is to analyse how the changing institutional factors of the link between IMP and Federal Government have influenced or modified the technological relationship - organised to produce fuel refining catalysts, between PEMEX Refining and the IMP.

The Federal Government has promoted more public functions, a relative fiscal autonomy and new forms of government in the organisation of the IMP. PEMEX Refining has historically been the main source of financing for catalyst research and development at IMP.

However, a period of institutional transition has been initiated and public research organisations are now being set up with an orientation towards the market. Lately, PEMEX Refining has reduced not only the financing but also the demand of catalysts designed and developed by IMP.

This article is available in Spanish.

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Oil Privatisation and the Institutional Environment: the Russian Example

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English Summary

Privatisation is at the heart of the structural reforms for economies in transition. In theory, the main aim of privatisation is to change the structures of corporate governance in order to improve the efficiency of the enterprises. The adoption of formal market institutions would be sufficient to secure the new property rights. In Russia that didn't happen. This paper discusses the narrowed vision of institutional change, without consideration of the previous environment of formal and informal institutions.

It offers explanations of the 'unexpected' results of the reforms in a capital-intensive natural resource industry, namely the hydrocarbons industry characterised by the opportunity of rent extraction through exportation. It demonstrates rightholders' interest for the weakness of the 'rule of law'. The institutional environment in which the hydrocarbons industry was privatised has created insecurity with regard to the ownership of industrial assets, for two reasons: the doubtful legitimacy of the privatisation process and the manipulation of the law on bankruptcy which, it was believed, would have to ensure consolidation of ownership rights. Central government as regions question also the attribution of rights to explore and extract.

The incompatibility of these institutions with the initial informal and formal institutions has led to adaptations that are strongly path-dependent, under the need to preserve a minimum of inter-industrial coherence.

This article is available in French.

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Section 4 - Gas industries - Regulatory and Integration Issues

The North American Natural Gas Market: the Articulation of Mexico

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English Summary

The idea of creating an integrated energy market in North America was born some years ago in the United States of America (US). Since the arrival of George W Bush to the US Presidency in 2000, this idea that involves energy security matters was reinforced. Canada is today

for Americans a reliable oil and natural gas supplier, and Mexico a certain source of oil. The US wishes not only to reinforce these links, but also to encourage the international electricity trade between the three countries, and natural gas with Mexico.

This country is rich in terms of natural gas reserves, but strong budgetary constraints limit the domestic production. Thus, its role in the North America scene becomes uncertain. On the one hand, the Mexican Administration seeks to secure its national supply by means of domestic production and complementary imports. On the other, Bush desires that Mexico becomes for the US an important and reliable supplier of natural gas.

The budgetary constraints are the key to these two divergent issues. If restrictions persist, Mexico will continue to import natural gas in order to satisfy its rising indigenous consumption. If they are relaxed, this country will turn out to be a net gas exporter for the US. The articulation of Mexico into the North American natural gas market is in all cases a central issue to be considered in the creation of an integrated energy market in the region.

In this paper, we analyse the main elements of the articulation of Mexico into the dynamics of competition of the American and Canadian gas markets. This articulation is defined as the process that will allow the creation of a unique gas marketplace in North America where competition and its dynamics will be global instead local or national.

This article is available in French.

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Drivers and Barriers to Cross-Border Gas Trade in the Southern Cone

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Abstract

This paper analyses the main drivers and barriers to the expansion of the gas market in the Southern Cone. The paper shows that in addition to possessing large gas reserves and a relatively developed international transmission infrastructure, the Southern Cone countries complement one another well in terms of gas supply and demand. Brazil is a major potential importer of natural gas, while Argentina and especially Bolivia have significant potential as exporters. In addition to these factors, perhaps the most important element of the regional gas market in terms of promoting cross-border trade is the presence of large multinational oil and gas companies, equipped with the capital and the know-how needed to invest in gas integration.

This factor is all the more crucial today as states in the region have lost their capacity to undertake large-scale investment projects. Despite the seeming political will to take advantage of these drivers, three obstacles stand in the way of regional gas market growth: macro-economic instability, regulatory asymmetries and poor inter-governmental coordination. Overcoming these difficulties will require not only increased coordination among public officials, but more creativity on the part of private agents through the introduction of more flexible contracts.

[↪ Full article here](#)

Natural Gas Pipeline Regulation in Brazil: Difficult balance between Competition and Market Development

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Abstract

The focus of this paper is the Brazilian South/Southeast/Midwest gas system, which is under the influence of the large Bolivia-Brazil gas pipeline - Gasbol. The major assumption here is that Brazilian gas demand is growing much slower than supply capacities. Huge gas discoveries in the South Cone of South America, including countries such as Argentina, Bolivia, Peru and Brazil, have created an oversupply situation. Producers must find a market for their gas and Brazilian consumers seem to be the only reachable option for the moment. As a consequence, all players had to get access to this market and open access regulation in existing pipelines became essential.

The expansion of high-pressure transportation facilities in Brazil has been driven mainly by political reasons, before any real demand had been proven. For example, the Gasbol has been operating systematically with large idle capacities, creating important short-term inefficiencies in the use of infrastructure. Regulators are expected to promote efficiency through more competition. The establishment of stronger competition by regulation is believed to reduce costs, increase short-term efficiency in the use of pipelines and expand gas demand. However, important issues must be raised regarding Brazil's gas regulation.

First, it is important to explore the difficulties related to the different levels of regulation in the Brazilian gas system as well as their different regulatory goals. The Federal government regulates high-pressure facilities, while the low-and-middle-pressure distribution networks are under the control of local states' regulation. There are antagonisms between those two levels of regulatory agencies with distinct objectives and approaches towards competition and market development.

The ability of middle-and-low-pressure gas distribution facilities to bring the gas to final consumers is limited and the target of expanding such downstream infrastructure seems to be in conflict with the Federal government's

strategy of inciting more competition primarily in the high pressure transportation system.

Second, the conflicts between different perspectives of efficiency must also be considered. Anticipating competition in existing high-pressure transportation systems, aiming to improve short-term efficiency in the use of infrastructure, in an infant gas market with low gas demand, may not incite new investments in the future, or may induce investors to build up new pipelines with smaller capacity, lowering, therefore, long-term efficiency.

Finally, the regulation towards competition has also been introduced as a mechanism to reduce the monopoly of state-owned Petrobras in the growing gas industry. However, this decision seems also to be in disagreement with other instruments of public policy. Petrobras is believed to have the role of gas developer in Brazil. It accepts interference from political forces aiming to boost the construction of large gas projects, including Gasbol, regardless of the lack of demand.

This creates difficulties for regulation to deter a dominant position from the state-owned company, which is investing in advance, where private capital would not take the risk, expanding infrastructure and waiting for the demand to catch up. At the same time, regulators also have problems in preventing opportunistic behaviour from other companies trying to break into the market through the idle capacities built by Petrobras. Such an antagonism is again mixed up with public policy since the newcomers are international companies, global gas players, very often considered with scepticism by the government and the population, while Petrobras is often seen as the national champion.

This paper invites readers to analyse whether Brazil is really ready for a more competitive gas industry or should it alternatively look for other forms of market organisation.

The difficult balance between competition and demand/infrastructure development is a typical problem in infant industries, particularly in less developed countries.

The conflicts between regulation and other instruments of public policy as well as among different levels of regulatory agencies also reflect the immaturity of the system, where the goals and roles of the agents are not clearly defined.

The answer for those challenges must take into account the role expected from the state in terms of development strategy.

[↪ Full article here](#)

Section 5 - Electric Industries Reorganization - Institutional and Regulatory Issues

The Power Systems of Argentina and Uruguay, two different paths in the look for Sustainability

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Daniel Bouille

Introduction

The last 15 years saw deep regulatory and institutional changes within the electric systems of most Latin America and Caribbean nations, changes that were part of a general context of State reforms promoted from the start by the IMF and the multilateral credit organisations, and presented as a solution to the recurring economic crises affecting these nations. In fact, all countries in the region initiated State reform processes to a higher or lesser extent.

As regards State-owned companies, particularly within the electricity sector, Argentina and Uruguay represent two opposites in the range of options adopted by the countries in the region.

While Argentina privatised nearly all its State-owned companies and assigned a key role to the market, the Uruguayan State did not privatise its companies and maintained its prevailing role in the public policy decision-making and implementation process.

Hence, while the Argentine electricity sector experienced a radical transformation (introduction of competition, vertical and horizontal disintegration, privatisation), the Uruguayan electricity sector held in essence the State monopoly on the supply of electricity.

Being aware of the significant differences existing between both nations as to the availability of natural resources, their size, and their effect on scale economies, as well as in relation to their political cultures, the author of the present article does not bring forward normative or even contrastive conclusions but proposes instead to contribute with elements that may help understand the causes that led the electricity sectors of both nations along such different paths, while at the same time aiming at evaluating the performance of the sectors in the light of the different sustainability dimensions (economic, social, environmental, political).

This article is available in Spanish, but it has an extensive English summary.

↳ [Full article here](#)

Institutional Inertia and Industrial Re-Organization: the Case of the Electric Industry in France and Mexico

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English Abstract

Both the Mexican and French electricity industries have been highly influenced for several decades by the notion of public service with a high degree of State intervention in the administration of public utilities holding a complete monopoly on national territory. This besides a historic reluctance of the participation of private players. Certainly current reforms are the driving forces on the individuals of each of these countries (financial pressures in the case of Mexico and imposition of a European executive in the case of France). But important similarities are expected to be fundamental in both countries in the new deregulated context.

The extent of market structures and private participation in the future Mexican and French electricity industry will be limited by the non-privatisation principle as well as the conviction to maintain a strong presence of the State, in order to alleviate market failures mainly related with long-term investment planning. Also comparable signs of institutional inertia will determine similarities in the degree of deregulation.

This paper is divided into four sections. In the first one we formulate a neo-institutional economic analysis of the historic facts that legitimate public utilities in France as in Mexico and today shape the evolution of the electricity industry in both countries. The second is dedicated to examining current reform driving forces. In the case of Mexico, emphasis is placed on the financial failures of the present model to respond to the rapid expansion of the system.

In the French case, 90/547/CEE Directive on electricity is analysed as being the main factor of change in the French electricity industry. In the third section we expose structural and institutional characteristics of the new French electricity industry. Finally, Mexican institutional weakness is analysed as one of the main barriers to replicate the French deregulation model in Mexico.

This article is available in Spanish.

↳ [Full article here](#)

Reorganization or Disorganization of the Mexican Electric Industry?

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English Abstract

In the last decade of the 20th Century, the Mexican electricity industry, that had developed in the previous thirty years as part of the state industry, faced several change intents motivated by the economic globalization process. The design was to introduce market forces and the private participation, supposedly to improve its operation and attract foreign investment for its expansion.

This work highlights the Mexican electric industry characteristics and analyses the changes introduced in the public electric service law during the term of president Carlos Salinas, brought about by the North American Free Trade Treaty.

The de-integration and privatization project of said industry put forward by president Ernesto Zedillo, that was rejected by the legislative branch, is described, and the proposal of president Vicente Fox is analyzed, pointing out its inconveniences and dangers that its approval would entail.

Finally, heeding the lessons from the failure of the deregulation of the United States' electric systems, a possible course of action for the future development of the Mexican electric industry is presented.

This article is available in Spanish

↳ [Full article here](#)

The Effects of NAFTA on Organisational Changes in the Mexican Electricity Industry

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English Abstract

The Mexican electricity industry went through important changes as a consequence of signing the North American Free Trade Agreement (NAFTA) with Canada and the United States. Significantly, since August 1992, when the negotiations of the NAFTA were finalised, this industry in Mexico changed its model of Vertically Integrated State Monopoly to the model of Exclusive Purchaser.

NAFTA establishes the investment opportunities in Mexico for electricity generating facilities classified as own-use, co-generation and independent power production (IPP). This clause specifies that companies of Canada and the US can operate, establish or acquire any type of the aforementioned electricity generating facilities. These companies must sell their energy to CFE (the Federal Electricity Company of Mexico): the IPP companies all their production, the co-generating and own-use companies only

their surplus. The CFE must purchase the energy to a company at prices and conditions previously agreed by CFE and the company. The cross-border trade of energy must be negotiated between CFE and an IPP company located in Mexico or either a public utility company Canadian or American territory.

The Mexican electricity law was also amended in 1992 to reflect in its 3rd article the NAFTA's mechanisms by which private investors can participate in energy production. This change violates the Mexican Constitution, however the Mexican government introduced institutional changes to complete the liberalisation of the electricity industry (the Fox administration has proposed a wholesale market model) following the policies proposed by international financial institutions such as the World Bank.

We support the electricity reform as part of the US strategy of continental energy integration. We discuss the big asymmetry in the electricity industry among the NAFTA countries and show how this asymmetry is very much unfavorable to Mexico. It will exhaust its natural resources, becoming a pollution dump.

This article is available in Spanish.

↳ [Full article here](#)

Foreign Investment in the Mexican Electricity Sector: Precedents, Characteristics and Territorial Structure

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English Abstract

This article analyses the opening process to private investment (national and foreign) in the Mexican electricity sector, a process that has been taking place during the last three administrations (Salinas de Gortari, Zedillo and Fox) within the structural changes agreed with the IMF and in the context of globalisation. We describe existing forms of private investment allowed by law (independent production, small-scale production, co-generation, self-supply, importation and exportation) and discuss their relative importance within the national electricity industry and their uneven growth and territorial expansion.

Other issues discussed are the technology of generation of electricity, the economic sectors involved and the nationality of foreign capital.

This article is available in Spanish.

↳ [Full article here](#)

Privatisation in the Electricity Industries of West Africa

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English Abstract

In this paper we assess the different methods of privatisation carried out in this region since 1990 by covering a number of experiences. The public service industries have long been outside the reforms of the public sector and macroeconomic policies, but the issues of inefficiencies and the public debt justify reforms.

However the low quality of assets in certain countries and the deficiencies of the institutional environment limit the privatisation options. Besides resilience and dilatory methods of reform such as public enterprise corporatisation which do not solve the financing problem, the main reform techniques are the adoption of concessions of the French type (eg Gabon, Ivory Coast) which maintain a light form of public ownership on assets, or a joint venture with a foreign partner (eg Senegal, Cameroun).

The reforms have been made fragile by the lack of political adhesion and extended indecision. Clear-cut privatisation have been challenged following electoral and governmental changes. The level of performances have not rapidly increased because of the initial technical situation which has been a pitfall for foreign concessionaries and the constraints on industrial relations.

In the context of weak administrative capabilities, it has been difficult to raise the quality of institutional relations between the States and the enterprises, in particular with the creation of sectorial regulators with low competences.

The focus of the regulatory game which was placed on the progressive adjustment of prices under the principle of cost recovery was handicapped by the volatility of the fuels with IPP contracts transferring all the risk on the government. It has constrained the establishment of confident relations between the public authorities and the private operators.

So the paper illustrates the cumulation of institutional weakness, initial technical handicaps and the problem of social acceptability of reforms in countries with weak governments and an inappropriate culture of public service based on private appropriation of rents by privileged social groups.

This article is available in French.

[🔗 Full article here](#)

Incentives for Investment in the Liberalised North and South Electricity Industries: the Necessity for Adequate Institutional Arrangements

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Summary

The investment stake is all too often underplayed in deregulation reforms focused on market rules and de-integration measures.

1. This paper criticises first the optimistic approach of the theory of investment incentives through market signals when it is applied to deregulated electricity industries. The greater part of the investment in base-load and peak equipment should be made profitable by income from very high prices during peak and extreme peak periods. Next, there is a problem of political acceptability, as the wholesale prices may reach extremely high and often unexpected levels and the system may face the risk of shortages in the period of needs of new capacities.
2. The problem is then addressed in the context of the mature electricity industries in the countries of the North. Given the maturity market, a number of corrective solutions to the pure market model could be envisaged to enforce the incentives to invest, but none of them is a perfect one. The main way is to focus on adaptation of market rules on the supply of power at peaks and extreme peaks by considering 'capacity adequacy' as a public good (with three solutions: capacity payment, reserve obligations, centralised procurement by auctioning for peak capacity). An examination of the reforms suggests also the validity of various other solutions based on a limitation of the competition by the allowance of long-term contracts and vertical integration between production and supply. The Transaction Cost Theory gives a justification to the recourse of these solutions. Observation also suggests another solution which is in opposition to the canonical approach of competition, namely the regulatory tolerance for horizontal integration and a smooth market power exercise, which implies a specific political culture which will tolerate it.
3. Finally the question is extended to the specific problem of developing countries characterised by irregular growth. It is argued that reforms must be designed in view of the importance of the investment stake through long-term co-ordination and the reduction of investment risks. Indeed, the experiences of the Latin American liberalised industries show that they must include a number of competition-based imperfections and to allow the ongoing exercise of market power in order to allow prices to rise above competition prices. The Single Buyer Model or some variant of it appears to be a good alternative if one wishes to avoid the twists and turns of the competition paradigm. The difficulty with this model arises from the institutional conditions to make it efficient and not over costly.

This article is available in Spanish and French.

[🔗 Full article here](#)

Markets Reorganisation, Security of Supply and Hydraulic Resources a Comparison between Brazil and Norway

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Abstract

This article analyses the electricity security supply problem, in particular the investment in the reserve margin and the diversification of investments in generation. It discusses the impact on security of the opening of electricity markets to competition. It examines the problems currently emerging with competition, as well as those which existed previously with monopoly. It shows that security represents a public good, contrary to electricity which is a private good.

This feature requires the adoption of regulatory or incentive measures assuring an adequate investment in the reserve margin, as well as investment diversification, such as the 'security supply obligations' and the 'capacity requirement or payment'. The demand side management's measures should also play an important role. The article includes a conceptual analysis and two case studies on Brazil and Norway.

These countries allow us to illustrate and to compare the specific problems that we find in the South on the one hand, and in the North on the other, in the field of electric supply. Furthermore, they provide the opportunity to analyse the advantages and disadvantages of hydropower, in particular its flexibility and its climate dependence.

This article is available in French.

[Full article here](#)

The Distributed Electricity Generation in Mexico and in Argentina: New Perspectives Associated with the Institutional Reforms in the Electricity Sector

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Abstract

Historically, the electricity systems were formed from the aggregation of small scale local networks to profit from an abundant electrical demand and economies of scale in production that allow the great interconnected systems.

Currently this logic seems to show certain limits from a visible exhaustion of benefits related to the size of production units, increasing difficulties in developing new electricity transmission infrastructure and a fast progression in the performance of modular production technologies under the effects of the electricity sector liberalisation and the emission reduction policies of greenhouse gases.

In the middle-term these factors make possible that electricity distributed generation plays a very important part in the electricity supply beside the great production units. Certainly, factors that have an influence on the development of distributed generation technologies can change in a great way from one country to another, but one finds, however, to a different degree some constants such as the researching of a bigger reliability on electricity supply, the setting up of prevention policy on climatic change or the liberalisation of the electricity sector.

In this paper the influence of these factors will be analysed emphasising in particular the consequences of the electricity sector liberalisation, starting from an analysis of the international experience, and afterwards examining the cases of México and Argentina.

This article is available in French.

[Full article here](#)

Impacts of the Reform Process and the Internationalization of the Electricity Sector in Central America: a Study of the Guatemalan case

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Summary

Guatemala has also implemented such policies, which have resulted in new investments entering the country. These investments have been led by American companies in the generating terrain and by Spanish ones in the distribution field.

It has been declared that this process is aimed at reducing energy costs, improving the service provision, guaranteeing supply and extending it in the rural areas. Guatemala had one of the lowest rural electrification rates within the region.

The main objective of this paper is to study the degree to which these objectives have been fulfilled. In order to do so the particular characteristics of the foreign investments are analysed, ie the strategies and methods adopted by transnational companies and how they are related to the country location factors.

This methodology is employed to enable the author to conclude as to what degree the objectives have been met and, moreover, to explain the role played by the investments, as well as the concrete mechanisms that have lead to these particular results and not different ones.

The analysis concludes that the overall balance is unsatisfactory because most of the objectives have not been achieved and because profoundly negative impacts on energy costs, environmental pollution, and energy dependency have been required to meet the achieved aims.

The only positive effect is the marked improvement of rural electrification rates. However, the medium and long term sustainability of the rural electrification plan that has allowed this positive result is highly doubtful.

This article is available in Spanish

[↪ Full article here](#)

Section 6 - Globalization Impacts and the New Role of the State

The Restructuring of Energy Industries in the Framework of Economic Globalisation

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English Abstract

Thirty years ago, many people thought the world would run short of oil before the end of the century. In 2003, oil, coal and natural gas are abundant and relatively cheap. Price mechanisms alone do not fully explain this change. Following Joseph Schumpeter's advice, we attempt to understand how global capitalism has transformed the structure of energy industries. For oil, coal, natural gas, electricity and end-use energy industries, we find very similar sequences: industrial reorganisation, technological change, market internationalisation and new industrial organisations.

These structural transformations have been generated by strong growth in energy consumption during the 1960s. But this economic reason would not be sufficient without two great institutional ruptures: the vertical de-integration of oil companies brought on by the independence of producer countries; and the breakdown in nuclear technology and the liberalisation of the electricity industries due to ecological concerns.

Finally, the process has been fostered by economic globalisation.

This article is available in French.

[↪ Full article here](#)

The International Situation and Colombian Oil

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English Abstract

This paper reviews the core of the Colombian Natural Resources Policy during the past decade. It takes some basic elements from prior works of the author in order to discuss some of the main characteristics of Colombian energy policy: the privatisation of the national energy rents.

After an introduction dealing with certain economic fundamentals, a discussion on geopolitics and world oil economics is provided in order to propose a framework for the examination of Colombian policy. The strategic conditions and the exhaustibility of energy are underlined mainly in the face of difficulties of supply in the coming years. This condition will be strongest for the world's largest consumers who happen to be the principal military powers, fighting over the major oil sources.

The article also underlines the meaning of the large physical variables which govern international geopolitics and suggests that the imbalance between demand and supply is likely to be 'solved' through a violent redistribution of the known oil reserves.

It summarises various actions taken by past Colombian administrations on oil policy, and draws conclusions on the true character of these measures.

As a conclusion this paper emphasises the need for a combined criteria policy (economic, ecological and political) for the resources policy as opposed to the short-term economic framework dominant today.

This article is available in Spanish.

[↪ Full article here](#)

Institutional Designs and Regulatory Reforms in the Energy Industries

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Introduction

In recent decades, many countries reformed their infrastructure industries, referring to these reforms as deregulation policies. Thus, it seems quite paradoxical that regulatory issues became more important after the introduction of so-called 'deregulation' policies. For the purpose of this paper, deregulation means simply the end of institutional barriers to entry that have protected monopolistic utilities from competition.

According to Majone (1998, p212), 'this paradoxical combination of deregulation and re-regulation is what is usually meant by regulatory reform'. From this point of view, deregulation is just one element in the structural and institutional reforms of the infrastructure sector.

During the 1990s more than 100 countries promoted institutional and structural changes in the organisation of energy industries. These reforms reduced the barriers of entry and raised an impressive movement towards revision of the regulatory frameworks. Despite the diversity of the implemented institutional arrangements, two common themes may be observed in these reforms:

- i. an increase in the number of players as a result of introducing competition and attracting private investment;
- ii. The creation of new regulatory bodies acting on behalf of government and seeking the consolidation of the new forms of State intervention.

This process is very far away from having ended. However, it already offers interesting lessons that can serve as one element for the improvement of the organisational structures of the new regulators.

The main difficulties for the construction of a comparative approach on the energy regulators are mainly related to three main points:

- i. although the regulatory matters are not new, the practices in energy regulation in a competitive environment are quite recent and, for that reason, there is a limited set of bibliographical references and information about regulatory experiences;
- ii. the reforms have been the object of several revisions; under these circumstances, it is not easy to define regulatory benchmarks;
- iii. the variety of existent regulatory frameworks and institutional designs.

The debate over energy regulation today focuses on the appropriate level for regulatory institutional designs as a consequence of the variety of regulatory functions from country to country. Notwithstanding the importance and the specificity of the juridical and institutional context of each country, the lessons from those experiences can be held as a complementary element for regulatory decision-making processes in the energy sector.

In this paper we are concerned with the variety of regulatory frameworks in the energy sector. What are the principal elements to understand this diversity? To what extent does an energy regulatory agency also deal with competition (or antitrust) matters? How are the governments defining competences among ministries, regulatory bodies and competition authorities?

We attempt to draw a comparative approach to deal with these key issues and to better understand the energy reforms in different countries. We consider that the set of regulatory attributions may vary according to three

particular issues: the institutional arrangements; the market structures; and the regulatory instruments.

In section 2, we examine the different theoretical approaches to regulation. We focus especially on the reasons for creating new regulatory bodies and on the regulatory tasks in a competitive environment. Section 3 provides an assessment of different energy regulatory frameworks. We propose a model from a sample of 20 energy regulatory frameworks in order to identify different aspects that could be helpful to understand the variety of institutional designs. The last section concludes the paper.

↪ [Full article here](#)

Energy Policy in Developing Countries: Aims and Modalities of State Intervention in More Globalised and Liberalised Economies

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English Summary

The aim of this article is to discuss the difficulties facing the State in developing countries in order to define and implement an energy policy taking into account general interest, in the context of economic liberalism. New preoccupations, priorities and restrictions arise concerning the utilisation of policy instruments. Different issues are presented in which the State intervenes again, but that does not mean necessarily a general return to interventionism.

This article is available in Spanish.

↪ [Full article here](#)

Brazilian Energy Policy: Changing Course?

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English Abstract

This paper compares the Brazilian Energy Policy in the last decade with that followed after the second world war. We contend that the energy policies followed since the 1950s showed a certain continuity and allowed the energy sector to respond with remarkable efficiency to the challenges posed by the Brazilian economy for over a quarter of a century, at least until the middle 1970s. We assume that, from the 1980s onwards, the energy policies until then adopted lost their effectiveness.

As a consequence, several impasses appeared which led administrations during the 1990s to adopt radical changes in the organisation of the energy industries, which were aimed at creating conditions for a profound reorientation of energy policy.

The results obtained by the new course have been far inferior to those reached in the previous phase. This paper purports to identify the main explanatory factors of this outcome.

The work is structured in two sections. The first sections analyses energy policy in the period from 1945 to 1990. In it we show that energy policy was centred on developing the supply infrastructure for oil products and electricity, aiming at fast growth of population access and geographical coverage of energy supply. This development was defined and implemented by state enterprises, which used state guarantees to leverage third party resources, supplemented by significant amounts of fiscal and quasi-fiscal resources as well as by fiscal renunciation.

The second section analyses the profound inflection in energy policy that took place in the 1990s. Infrastructure development was left to market forces, and the space of state enterprises in formulating and implementing energy policy was drastically reduced. Fiscal and quasi-fiscal resources for the energy sector were eliminated, and the Treasury became a voracious demander of taxes from energy firms. These have been forced to find other sources of funds, which have to be private given the confines of public finance.

Alongside this, both the fossil fuel and the power sectors underwent a profound restructuring and ceased to be operated by monopolies. The government further signalled the will to promote the use of natural gas, until then a resource playing a very minor role in the Brazilian energy balance. The outcomes were different in the hydrocarbons and the electricity industry, partly because of distinct treatments of Petrobrás and Eletrobrás by the new policies, and partly because of specific factors within each industry.

The paper ends with an analysis of prospects for the energy industries as a result of policy change as existing in October 2003, and in consequence does not discuss the new model for the power sector in detail.

This article is available in English and Portuguese.

[↪ Full article here](#)

Public Policies for the Diffusion of New Renewable Energies in Brazil

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English Abstract

This article will provide a comparative analysis of the public policies that were applied in the last decades in Brazil, relative to the development of the NRE (new renewable energies), in the context of regulatory and organisational changes in the electricity industry. The approach is centered on the obstacles that the public policies NRE face for their greatest distribution, bearing in

mind the specificities that face the underdeveloped countries and particularly Brazil.

The sustained development concept will be put forward in its broadest sense, taking into account the political and economic, social and environmental dimensions. The theoretical background that it will have to adopt will be that of the evolutionary currents in the economy, showing the necessity of adopting public policies that consider that the technological systems are very inert and that to change them there needs to be a constructive dialogue among the various players involved. The single adoption of the political step of the liberalisation of markets of the electricity industry does not lead to the achievement of the objectives looked for in these topics assessed by this article.

Until half-way through the 1990s the diverse sectors in the energy sectors of Brazil were organised around public corporations monopolies that had taken charge of the necessary investments for the development of the different sub-sectors of the energy industries. The strategic planning of the sector was carried out through public, strongly-centralised decisions taken by the Executive Power. Based on the directives of the Executive Power of the time, as an answer to the first oil shock of 1973, Brazil believes the PROALCOOL in 1975 to increase its energy independence in fuels.

The PROCEL, the national programme for electric energy conservation (in fact a programme for the elimination of electricity waste) was born in 1985. In 1995 the PRODEEM was intended to universalise access to electricity which 20 million people had been excluded from and who lived in remote towns. In 1995 Brazil began to change its model for privatising its system of electricity distribution without defining a regulatory system nor the political organisation for the transfer of public property. Several public policies were adopted in this way: to provide energy efficiency, a greater distribution of the NRE, as well as research and development in these fields.

This article analysed the results of all the public policies adopted in Brazil for the promotion and technological research of NERs.

The conclusions are that to eliminate the present obstacles, besides the economic instruments, sociological instruments must also be adopted which will energise the dialogue and the interaction amongst the actors involved with the technological system. Finally in the article it is suggested that changes would also be necessary in energy public policies to achieve further development.

This article is available in Spanish.

[↪ Full article here](#)

4-8 October 2004

Conferences

Global Peak Oil Gathering

Gathering and Think-Tank

A Gathering of Intelligence, Facts and Visions

19-20-21 October 2004, Koblenz-Lahnstein, Germany

www.gasandoil.com/peakoil/

The discussion around the future global demand, supply and reserve-situation is intensifying.

Are we actually running out of oil (and gas) or not? And if so when? Will the reserves collapse or will new finds take care of the future? Will production keep up with demand? And if not, what then? Many questions and even more answers.

This will be of interest to: Long-term viewing people, consultants, experts, Government representatives, people interested in future energy-developments, long-term planners, energy-strategists, the energy-investment community, banks, (re-)insurance-companies, transportation-specialists, energy-companies and institutions, etc.

For more information visit www.gasandoil.com/peakoil/ and download the brochure for the introduction, programme, speakers and registration form.

International Energy Law, Contracts, and Negotiations

JW Marriott Galleria, Houston, Texas

Organised by the Rocky Mountain Mineral Law Foundation, Institute for Energy Law of the Center for American and International Law Association of International Petroleum Negotiators

Part 1 - Upstream Issues & Agreements

27 September-1 October 2004

- Strategic Overview of the Petroleum Industry
- Confidentiality & Bidding Issues
- International Due Diligence
- Principles of Negotiation/Mock Negotiation
- Ethics & Negotiation Problems
- Granting Instrument Issues
- Joint Operating Agreement (JOA) Issues
- JOA Accounting Procedure Issues
- JOA Application Problems
- Participation Arrangements (Farmout/Farmin)
- Environmental & Decommissioning Issues

- Strategic Overview of the Petroleum Industry
- Ethics & Anti-Corruption Laws and Issues
- Unitization Issues
- International Service Contract Issues
- Crude Oil Marketing, Lifting and
- Transportation Issues
- Overview of Infrastructure Development
- Projects - Due Diligence, Risk Assessment,
- Project Financing
- Natural Gas Project, Marketing, and
- Transportation Issues
- LNG Project, Marketing, and Transportation Issues
- Power Generation Project Issues
- International Dispute Resolution Issues
- Purchase and Sale Agreements

More information at the [RMMLF website](#).

CEPMLP Seminars 2004 - Summer/Autumn

- Negotiation and Documenting Petroleum Industry Transactions
23-27 August 2004
Location: University of Dundee, Scotland, UK
Seminar Director: Dennis C Stickley
Fee: £1,595
- Natural Gas Negotiations and Contracts
30 August-3 September 2004
Location: University of Dundee, Scotland, UK
Seminar Director: Dennis C Stickley
Fee: £1,595
- Petroleum Industry Service Contracts
6-8 September 2004
Location: University of Dundee
Seminar Director: Dennis C Stickley
Fee: £960
- Transnational and Cross-Cultural Dispute Management in the Oil, Gas, Energy, Resources and Infrastructure Industries
Successful practices and hands-on learning based on interactive case studies with experts economic, financial, organisational and psychological management, mediation and arbitration of transnational disputes
Autumn 2004 - Location: St Andrews, UK
Seminar Director: Thomas Wälde
- UK Oil and Gas Law
13-17 September 2004
Location: St. Andrews, Scotland, UK
Seminar Directors: Stephen Dow, University of Dundee and Penelope Warne, CMS Cameron McKenna
Fee: £1,850

- EU Gas and Electricity Seminar:
28-29 September 2004
Location: Brussels
Seminar Directors: Stephen Dow, CEPMLP and Christian Egenhofer, CEPS
Fee: £795
- Finance for Energy Resources and Infrastructure-
Role of Islamic Finance
7-8 October 2004 London
CEPMLP & Islamic Conferences
- How the EU emissions trading scheme can
damage the liberalised electricity market structure
10 October 2004
Scotland House, Brussels
CEPMLP & CEPS

Asset Acquisition & Disposal for Oil & Gas

18-19 August 2004 in Kuala Lumpur, Malaysia

The forum will look into the development of acquisition and disposal activity within the Asia Pacific region for exploration and production assets. Primarily it will focus on the trends of buying and selling oil and gas field assets, what are the new issues and what new opportunities are there for energy companies.

More information (overview, programme and registration) via the conference website at www.iqpc.com

The 11th Geneva Global Arbitration Forum

1-2 December 2004

More information: Werner & Associates, wernerp@iprolink.ch

Contract Risk Management In Upstream Oil & Gas

October 26 - 27, 2004. Kuala Lumpur, Malaysia

More information (overview, programme and registration) via the conference website at www.iqpc.com

Selected Relevant News available from Alexander's Oil and Gas Connections

Europe

- **Turkey determined to re-export Iranian gas to Europe**
The new Turkish Ambassador discussed his country's relations with the Islamic Republic of Iran as well as Turkey's accession to the EU, the Kurdish issue and the Iraqi situation. Ambassador Aran maintained that his country is determined to continue purchasing Iranian gas and re-export some of it to Europe. The envoy said his country's vast experience and success in the tourism sector could be helpful to Iran in its efforts to boost this industry.

- **EU threatens legal action against Greek gas emissions**
The European Commission threatened legal action against Greece on yet another environmental issue - emissions of carbon dioxide, which are believed to accelerate climate change. Greece and Italy were the only EU members singled out for written warnings for failing to submit to Brussels their national plans on how emission allowances will be allocated to local industries. "If the EU wants to retain its leadership in fighting climate change, it can best demonstrate its determination through the emissions trading scheme, and all member states must be on board," Environment Commissioner Margot Wallstrom said.

- **Church of England declares support for climate plan**
The Church of England has declared its support for a challenging proposal to tackle the threat of climate change. The Archbishop of Canterbury, Dr Rowan Williams, says the plan, known often as "contraction and convergence", offers a way to act justly towards the poorest. The idea, hatched by the Global Commons Institute, says all the Earth's people have equal rights to cause pollution. Already endorsed by other faith groups, it says nobody, however rich, should cause more than their allotted share...

- **Iran and Hungary to expand electricity cooperation**
Grounds for developing electricity exchanges between Iran and Hungary were reviewed in a meeting between Hungarian deputy foreign minister and deputy managing director of Iran's Tavanir Company, Masoud Hojjat. During the meeting, both sides stressed deepening bilateral collaboration in the field of electric energy. Hojjat referred to previous cooperation with Hungary for manufacturing cooling power plant towers as well as sodium lamps for street lighting...

- **Iran and Norway sign MoU on oil and gas cooperation**
Iran and Norway signed a Memorandum of Understanding (MoU) setting the framework for a bilateral oil and gas cooperation between the two states. Addressing the signing ceremony, Iranian Oil Minister Bijan Namdar Zanganeh said that the MoU is the second of its kind signed by the two countries over the past two-and-a-half years. The move, he added, shows progress in Tehran-Oslo bilateral cooperation.

- **Council approves regulation on access to gas transmission networks**
- **Renewables conference in Bonn adopts ambitious targets**
- **EU states to avoid unilateral oil tax cuts**
- **Russia and EU to study integration of energy systems by 2006**

- EU interested in boosting energy cooperation with Iran
- EU withdraws energy chapter in proposed European constitution
- EU seeks closer energy ties with Syria
- Norway introduces new tax measures for the oil sector

Middle East

- **Iran to launch oil trading market for Middle East**
Iran should not hinge on an oil exchange because it is not a big economic power, a senior deputy in the parliament has said.
"The oil market stability may benefit us under the present circumstances. But if the oil producers lose their power of decision-making we will lose everything," Hussein Nejabat told. "The phenomenon of globalisation will further benefit those who control the oil exchange. At moment, Iran is not a big economic power and it should not welcome an oil trading market," he said.
- **Kuwait and South Korea discuss energy cooperation**
Kuwaiti Prime Minister Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah said that his country will provide crude oil to South Korea in a stable manner and will help Korean firms to join construction projects in Kuwait.
While paying a courtesy call to President Roh Moo-hyun, the visiting Kuwaiti official said he hoped the two countries could further promote bilateral economic cooperation, Chong Wa Dae spokesman Kim Jong-min said.
- **The sandwich policy of Iran**
By Tariq Saeedi - For the last decade or so, Iran has been following a policy that defies any rational justification. After the fever to export Islamic revolution subsided in the early 1990's, Iran started a number of manoeuvres that can collectively be called The Sandwich Policy. The Sandwich Policy is meant to maintain imperceptible but persistent tension with the immediate neighbours and promote deep friendly relations with the neighbours of neighbours.
- **Iran claims number-two position for world oil reserves**
Iranian Oil Minister Bijan Namdar Zanganeh announced that new oil discoveries in the southwest of the country now meant the Islamic republic held the number-two position in world crude reserves.
"We now have the second largest oil reserves in the world, after Saudi Arabia," he told. He said the oil ministry's new figure of 132 bn barrels of proven reserves, a jump of 17 bn barrels from before, came from discoveries in the Kushk and Hosseinieh oilfields...

- **Iran's strategic approach greatly influences oil industry development**
Head of the Expediency Council (EC) Ayatollah Hashemi Rafsanjani stated that oil industry was the beating heart of economic development in Iran and the strategic approach taken by Oil Ministry played a great role in developing the sector.
Addressing the third national festival for appreciating domestic manufacturers of oil industry goods and equipment, he added that the destiny of the world depended on oil, gas, and petrochemical industries, noting, "Decreasing trend of oil resources and increasing consumption has concerned the world and many political developments in the Middle East stem from this fact."
- **Iran modifies oil laws to encourage participation of foreign firms**
- **Syria and China sign cooperation agreements**
- **Gulf states need to boost investment to avert oil crisis**
- **China and Iran to hold talks on energy investment**
- **Iran and Brazil sign deal on petrochemical cooperation**
- **Syrian parliament seeks to ban US oil companies**
- **Iraq and the hidden euro-dollar wars**
- **UAE and Oman sign agreement on electricity grid**
- **Syria and Russia sign memo of understanding**
- **Iraq assumes full control of oil industry**
- **Iranian electricity market aims to encourage private sector**
- **Qatar believes formation of LNG cartel is unlikely**
- **EU interested in boosting energy cooperation with Iran**
- **EU seeks closer energy ties with Syria**
- **Arabs must invest \$ 1 tn into hydrocarbon sector**

Central Asia

- **Kazakhstan establishes oil quality bank**
An oil quality bank has been established in Kazakhstan. A similar bank is supposed to be established in Russia, a KazTransOil representative said at an international forum in the south Ukrainian city of Odessa.
Hydrocarbon resources databases of oil companies working in Kazakhstan make it possible to identify a consignment of oil.
- **The losing side of the Kazakhstan oil boom**
By Burt Herman - Oil worker Bisen Zhekenov says his battle with Halliburton began on a hot summer day in 1998 when a leak of highly toxic gas at the country's largest oil field made him violently ill. Since then, he's battled the American firm up to the highest court in this oil-rich Central Asian nation, demanding damages for his ruined health. Six years on, Halliburton officials have yet to acknowledge any responsibility and only reluctantly have confirmed an accident happened.

- **Kazakh parliament postpones oil law amendment ruling**
The parliament of Kazakhstan postponed a decision on whether to pass amendments to the nation's subsoil law that would allow the government to buy BG Group's (BRG) one-sixth stake in the giant Kashagan oil field. The latest session of parliament adjourned, without a decision on the amendments, which would give the government the right to pre-empt the sale of equity in existing oil and gas contracts.
- **Kazakhstan prospers with skilful strategy**
By Martin Sieff - Sitting astride huge reserves of oil and gas, the vast Central Asian nation of Kazakhstan is booming, but it took skilful diplomatic and business strategies to pull it off too. With proven oil reserves of 35 bn barrels, as much as the North Sea, and projected further reserves at least three times as large -- around 100 bn to 110 bn barrels -- Kazakhstan might be expected to be an obvious magnet for foreign investment.
- **New Kazakh civic coalition to ensure greater transparency in oil sector**
- **Turkey wants Kazakhstan to join Baku-Ceyhan oil pipeline project**
- **Oil strategy implementation of Azerbaijan to attract \$ 60 bn investments**
- **China and Kazakhstan sign oil and natural gas cooperation deal**

Russia

- **Sakhalin negotiates oil contracts with Japan, China, and South Korea**
Governor of the Sakhalin region Ivan Malakhov met with representatives from China, and South Korea to discuss the purchase of 18-20 bn cm of gas over the next three years, and take part in construction projects to strengthen the infrastructure of the Sakhalin shelf projects. The Korean side is particularly interested in the Sakhalin-3, Sakhalin-4, and Sakhalin-5 projects. Projected reserves run into several hundred tons of oil and hundreds of billions of cm of natural gas ...
- **Russia to consolidate natural gas market**
A session of the executive committee of the world's largest gas exporters took place in Cairo in the beginning of July. It is only known the sides discussed various schemes to sell natural gas on the world market. Iranian Oil Minister Bijen Namdar Zanganeh said, the organization of the world's natural gas exporters had advanced considerably, but it was still far from OPEC.
- **Ukraine confirms interest in Eurasian oil-transport corridor development**
Ukraine confirms its interest in development of Eurasian oil-transport corridor and completion of the Odessa-Brody oil pipeline. The decision to use Brody-Brody in a reversed regime is a temporary

step. Works on formation of commercial and organizational prerequisites for oil transporting by the Brody-Brody pipeline will continue. In particular, Ukrtransnafta has considered and analysed proposals on supplies of oil of such companies as KazMunaiGaz, Petrol, Trans Ukrainian-Kazakh joint venture, Lotos, Orlen and ChevronTexaco.

- **Georgia agrees to buy Iranian gas**
Georgia has arranged to start importing natural gas from Iran as early as January-February next year in a bid to guarantee its energy security and to avoid force-majeure, Niki Gilauri, the Georgian energy minister, told. The agreement was reached during Georgian President Mikheil Saakashvili's visit to Iran, Gilauri said. Georgia currently receives gas produced in Turkmenistan via Russia under contracts with Russian gas monopoly Gazprom and the Itera energy group.
- **Russia reports on electricity industry reform**
Reform in the electricity industry is proceeding according to plan, although ways to form wholesale generating companies are to be identified, Energy and Industries Minister Viktor Khristenko said. The minister said that under effective laws, the ministry shall put together reports on electricity industry reform every six months and that the next such report was due in December this year
The fact that no final decision has yet been made as to how wholesale generating companies should be built will not disrupt the reform, Mr Khristenko assured.
- **Russian state should continue to control backbone oil pipelines**
- **Russian taxes in oil and gas sector should be optimised**
- **Ukraine to enforce measures to ensure lawful use of natural deposits**
- **Russia plays its energy card**
- **Russia's continental shelf to be developed under unified strategy**
- **Russia and Ukraine sign draft protocol for gas transit**
- **Tokyo wants long-term Russian-Japanese energy cooperation program**
- **China and Uzbekistan cement cooperation**
- **Acquisition of western energy grids is possible for Russia**
- **Iran and Ukraine to boost oil and gas cooperation**
- **Syria and Russia sign memo of understanding**
- **Putin's oil cartel**
- **Russian lawmakers approve fiscal watchdog bill**
- **Russia and EU to study integration of energy systems by 2006**
- **China and Uzbekistan to sign energy cooperation document**
- **Russian ministry to devise system to regulate oil exports**

South & Southeast Asia

- **Energy transfer network from Iran to Asia is a necessity**

The Head of the Asia-Europe Energy Association told that establishing an energy transfer network in Iran for distributing energy among Asian countries is a necessity. Sergei Bertier added that Europe gets 80% of its needed energy from nuclear plants with Russia and Norway being major suppliers of gas to European nations. "Therefore, Asia could be a good market for the Iranian gas," he said.

- **How to combine sustainability with need for energy in China's far west?**

The apparent contradiction between sustainable development on the one hand and the need for energy on the other is one of the biggest challenges facing China, which has been suffering both profound energy shortages and severe environmental deterioration. We have been visiting the regions in the far west of China to take a look at the issues at close hand.

- **New hopes emerge for Iran-India pipeline project**

Hopes have once again been revived on the Iran-India natural gas pipeline project following minister for external affairs, K. Natwar Singh's declaration, that the UPA government was not averse to it.

As a result, when the commerce secretaries of India and Pakistan meet to discuss steps to normalize trade ties under the auspices of the composite dialogue process, Islamabad will be stepping up efforts to persuade New Delhi to agree not only to the Iran-India project but also ...

- **Japan to revise exhaust gas regulations**

The Environment Ministry of Japan intends to prohibit diesel-powered vehicles failing to meet exhaust gas regulations from operating in the Tokyo metropolitan area and some other urban districts in the nation, ministry insiders said. The ministry plans to revise a law to be implemented in fiscal 2006 that aims to reduce nitrogen oxide (NOx) and particulate matter found in diesel-powered vehicle exhaust.

- **Malaysia and Brunei to resolve issues in win-win situation**

Malaysian Deputy Prime Minister Najib Tun Razak said that Malaysia and Brunei would be able to resolve some outstanding bilateral issues in a win-win situation.

Given the tremendous goodwill that existed between the two countries and between their top leaders, any bilateral issues still pending could be resolved in due course based on the principle of a win-win situation, Najib told during his visit in Bandar Seri Begawan, capital of Brunei. A dispute over an oil field found off the coast of Sabah is among issues discussed at a "four-eye" meeting between Najib and Sultan of Brunei, Sultan Hassanal Bolkiah, in Bandar Seri Begawan.

- **Pakistan and Azerbaijan to expand cooperation in oil and gas sector**
- **China urgently needs compensation mechanism for ocean pollution**
- **Boundaries dispute leaves East Timor's riches in limbo China's cabinet approves energy development program**
- **Syria and China sign cooperation agreements**
- **SouthAfrica and China sign seven deals**
- **China to fully open up natural gas industry**
- **China and Vietnam ratify sea border agreement**
- **Asian countries vow to make efforts to attain energy security**
- **China may implement new law to demand use of clean energy**
- **China to further open oil and natural gas exploration to foreign firms**
- **ASEAN, China, Japan and South Korea to forge closer energy partnership**
- **Pakistan assures security for Iran-Pakistan-India gas pipeline**
- **Thai cabinet approves energy conservation plan**
- **China and Uzbekistan to sign energy cooperation document**
- **Asia's energy opportunity**
- **Can Asia provide global leadership?**
- **India goes cool on privatisation**
- **US signs agreement with China for energy policy dialogue**
- **Asian nations agree to strengthen cooperation for oil supply security**
- **China's economic boom creates energy quandary**
- **China and Kazakhstan sign oil and natural gas cooperation deal**
- **China to discuss law on renewable energy**

Africa

- **The Achilles heel of Equatorial Guinea's dictator**
Legal action in Spain and the United States taking aim at secret bank accounts of President Teodoro Obiang of Equatorial Guinea could become a weapon to help put an end to his 25-year dictatorship, say opposition leaders and activists from the West African nation.
The trials could mark the beginning of the end for a dictatorship "which has turned the country into one enormous prison", said Celestino Okenve.
- **West African nations critical to US energy security**
The West African nations of the Gulf of Guinea are critical to US energy security and could one day provide the United States with up to 20 % of its energy needs, says energy expert David L. Goldwyn.
In a testimony on July 15 before the Senate Foreign Relations Committee's Subcommittee on International Economic Policy, Export and Trade Promotion, Goldwyn, a former US assistant secretary of energy for international affairs, said the nations of the Gulf of Guinea -- Nigeria, Chad, Equatorial Guinea, Gabon, and Sao Tome and

Principe (along with Angola) -- are key contributors to the US energy sector and to the diversity of the global oil supply.

- **US readies proposed African coastal security program**
A top US military commander proposed American help in monitoring West Africa's Gulf of Guinea to secure an unstable region that holds as much as 10% of the world's oil reserves. Gen. Charles Wald, the deputy commander of the US military's European Command for Europe and Africa, said he raised the offer in talks with West African and national officials in Nigeria -- Africa's biggest oil producer and most populous nation.
- **The connection between energy, poverty and environmental degradation**
By Rasheed Bisiriyu - Despite the advent of modern energy services, fuel wood (otherwise known as firewood) is still a major source of energy in Nigeria, which regrettably accounts for a high rate of deforestation, soil degradation and loss of bio-diversity. This situation is said to be largely responsible for the impoverishment of the people.
- **Nigeria and Sao Tome sign joint transparency declaration**
Nigeria and its newly oil-rich neighbour Sao Tome and Principe, signed a joint declaration regarding transparency and governance in the Joint Development oil-rich Zone shared by the two countries.
President of Nigeria Olusegun Obasanjo and visiting President of Sao Tome and Principe, Fradique De Menezes, agreed to full public disclosure of all transactions in respect of oil companies' activities in the zone spanning the two countries' waters in the Gulf of Guinea at a meeting in the Nigerian capital Abuja. The Joint Development Authority (JDA) was also required to make public the basis for all awards of interest in the Joint Development Zone including the technical and due diligence analysis supporting such awards.
- **Nigeria cancels discretionary allocation of oil blocks**
- **Libya supplies US with oil again**
- **Algeria may export solar electricity to Europe**
- **UNDP helps Sao Tome to prepare for oil watchdog role**
- **Egypt refuses to back Israeli gas deal with state guarantee**
- **Angola to join in oil payment transparency movement**

Latin America

- **Bolivian voters back president on gas industry nationalization**
Bolivians voting in a referendum overwhelmingly supported President Carlos Mesa's plan for the government to exert greater control over US and

other foreign gas companies. With 66.4 % of the vote sampled by the government, 87% of voters approved of a referendum measure that would repeal a 1996 law that permitted foreign energy companies to exploit Bolivia's vast and virtually untapped natural gas reserves. In addition, 92% supported a proposal for Bolivia to take back ownership of natural gas at the wellhead, meaning oil companies would be paid for pumping the oil but would not own it. The changes would need legislative approval.

- **Trinidad and Venezuela discuss energy project**
Trinidad and Tobago and Venezuela are seeking to complete an arrangement that would lead to significant reductions in energy costs across the region, Prime Minister Patrick Manning has said. "Essentially we are heading in a direction of a financial arrangement other than a reduction in the petroleum product price and in that regard we have spoken already to the President of the Caribbean Development Bank.
- **Venezuela and Colombia discuss pipeline and border security**
Plans to build a \$ 200 mm natural gas pipeline from Venezuela to Colombia topped the agenda at a presidential summit at a petrochemical complex. Venezuela's Hugo Chavez and Colombia's Alvaro Uribe also were discussing security along the 2,200 km (1,400-mile) border, gasoline smuggling, and trade in their first bilateral meeting this year.
- **Bolivia establishes legal foundation for national hydrocarbons law**
Bolivia's congress approved on July 5 a bill that establishes the legal foundation for a national hydrocarbons law and gas exports referendum to take place on July 18. The lower house approved the bill in its original form in early June, but the senate then made some changes that were debated in congress during the past month, a spokesperson for the hydrocarbons ministry told.
- **Bolivia calls for responsible nationalization of oil and gas industry**
Bolivian President Carlos Mesa called for a "responsible nationalisation" of the country's oil and gas industry. He urged voters to participate in the referendum.
Oil companies now control the production of oil and gas, but if voters back the referendum's proposals, then the "State will recover sovereignty over oil and gas", Mesa said.
- **Iran and Brazil sign deal on petrochemical cooperation**
- **Oil windfall and the Trinidad stabilisation fund**
- **Peru government passes decree to offset international oil prices**
- **Energy ministers from Western Hemisphere end summit**

North America

- **Economist warns legislators about need for better energy management**
A national energy bill that failed to pass last autumn has fuelled advocates fearing Americans are doomed to live the life of Bill Murray. "Until we do something to fix the problems we have, in a sense we are almost doomed to be like the movie 'Groundhog Day' and wake up to the same music over and over again," John Felmy, chief economist for the American Petroleum Institute, told National Conference of State Legislatures delegates gathered in Salt Lake City.
- **Judge approves Utah oil and gas exploration**
A federal judge in Washington refused to block oil and natural gas exploration on 57,500 acres of public and private land in eastern Utah. A coalition of environmental groups called the Southern Utah Wilderness Alliance, made up of regional and national organizations, said the exploration allowed by the Interior Department's Bureau of Land Management would violate the National Historic Preservation Act, among other federal laws.
- **Energy firms settle charges of marketplace manipulation**
Nineteen energy companies and two individuals, including four Denver-area companies, have paid more than \$220 mm to settle charges they lied to industry publications in an attempt to manipulate the marketplace for profit. The settlements started in December 2002, and the latest one wrapped up July 1. Questions first surfaced in fall 2002 about critical natural gas and electricity pricing indexes, which the publications create and sell.
- **US must act now on corruption allegations about Equatorial Guinea**
The US Senate Permanent Subcommittee on Investigations will release a report that paints a damning portrait of financial impropriety and sleaze centred on Equatorial Guinea's oil accounts at Riggs Bank in Washington, DC. Riggs was recently fined \$25 mm for failing to report suspicious transactions through bank accounts run by Equatorial Guinea's dictatorial President Obiang, among others. Riggs was also involved in the purchase of luxury homes for Obiang and his brother, Armengol, named in State Department reports as a torturer.
- **It's time for the United States to create a workable energy strategy**
By Paul Roberts - It should be clear by now, even to those in the White House, that America needs a new oil strategy. Since 1980, US oil policy has centred almost entirely on enlarging our supply of oil -- either by drilling more oil wells at home or by cosying up to foreign producers such as Nigeria or Saudi Arabia. But as a means to energy security, this plan is dangerously obsolete. US oil fields are nearly tapped out.

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TDM is focusing on recent developments in the area of Investment arbitration and Dispute Management, regulation, treaties, judicial and arbitral cases, voluntary guidelines, tax and contracting.

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