5-10-2007

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LADB Latin America Data Base
News & Educational Services
NotiCen
LADB Article Id: 51418
ISSN: 1089-1560

Nicaragua's Energy Prospects Improve with Oil Discoveries

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Category/Department: Nicaragua
Published: 2007-05-10

Nicaragua's already anemic economy is worsening as energy costs weigh ever more heavily, but recent oil discoveries, together with help from Venezuela, point to possible improvements ahead. Meanwhile, inflation is rising, consumers are rising up, and authorities are responding by recommending fuel-saving measures. As across-the-board prices have soared, so has consumption of fuels.

Instituto Nicaraguense de Energia (INE) director David Castillo said that use of hydrocarbons is up this year compared with the same period last year. In March 2006, consumption of gasoline was 283,000 barrels; this year, the figure was 293,000. Last year at this time, diesel use reached 758,483 barrels; now it is 842,484. Castillo said the government has no price-control options because the importation, refining, and distribution costs obey only the laws of the free market. Current prices are US$1.06 for a liter of gasoline and US$.96 for a liter of diesel.

Nicaragua has received fuels from Venezuela since November on favorable terms, but most of this has gone to subsidize public transportation. Individual consumers do not benefit from this. "A general subsidy cannot be given because that would subsidize sectors that have resources. What those who have their own vehicles must do is reduce their consumption. The benefits are for public transportation and social projects," said Castillo. The policy will continue to be focused on subsidizing services for the poorest sectors. Since November, Venezuela has provided 250,000 barrels, about US$15.2 million worth of fuels. The country uses about 10 million barrels a year.

Economists see inflationary spiral, Ortega sees black gold

Conservation alone will not bring relief to the struggling populace, however. Fuel-fueled inflation has been significant and palpable. The government had foreseen ending 2007 with a cumulative inflation rate of 7%. Now, say experts, the figure will be 10%, as energy prices work through the economy, affecting the basics milk, cheeses, corn, and most other products. Economist Sergio Santamaria said Venezuelan oil would not help much. The price of a bus ride in Managua has been reduced about 20% to around US$.10, but benefits end there. The problem is world prices and local monopolies, which drive prices ever higher, such that in Nicaragua the equivalent of a gallon of gasoline has gone well past US$4 a gallon at a time when it costs US$3 or less in the US.

As economists began to predict an inflationary spiral and attribute it to political uncertainties as well as to energy costs, President Daniel Ortega began to rebut them. In April, he said, "The statistics indicate neither recession nor inflation." The Banco Central de Nicaragua was holding to 7% inflation and 3.2% growth. Ortega may be correct in his assessment. In February, Minister of Mines and Hydrocarbons Emilio Rappaccioli announced the discovery of gas and oil deposits in San Bartolo, San Rafael del Sur, in the department of Managua.

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The Canadian company Norwood had been exploring and sinking test wells, finding concrete signs of commercial reserves. Said the minister, "From the samples obtained from perforations, there are indications of the possible existence of gas and liquid oil, but these are just geochemical indications that must be corroborated by drilling more wells."

The government passed legislation to facilitate international exploration in 2000. In January 2003 the Instituto Nicaraguense de Energia (INE) completed the county's first tender round for oil and gas concessions, and Norwood was one of four companies awarded contracts. They and joint-venture partner Industria Oklahoma Nicaragua S.A. signed an agreement in 2004 giving Norwood rights to approximately 3,500 sq km along the Pacific Coast. According to the company, the concession was selected based on: 1) A large exploration license covering the onshore Sandino Basin with very favorable terms; 2) Numerous oil seeps appearing at the surface indicating hydrocarbon maturation within the basin; 3) Multiple favorable geological structures mapped on the surface within the bounds of the property; 4) Geological analogues to a number of California onshore oil and gas basins including the Santa Maria and southern San Joaquin Basins.

Norwood's concession agreement contains three two-year work commitments subject to completing 100% of the agreed-upon work. Since the 2004 signing, the company has progressed from initial environmental studies through, in April 2006, contracting for engineering services that included a drilling program based on results of interpretations of test data. The company is reportedly confident that Nicaragua will soon become the third oil-producing country on the isthmus after Panama and Guatemala. In April, it announced the start of a third well. The next step is to declare the discoveries of commercial grade and to enter into a 30-year contract for further exploration.

According to the current law, the company would pay the state 5% royalties on natural gas and from 2.5% to 15% on oil. The law also stipulates a 30% income tax on profits. These terms are considered extremely favorable to the company, particularly in light of renegotiations of contracts between private companies and states in South America wherein countries have taken back substantial percentages of the companies' enormous profits (see NotiSur, 2004-11-05, 2005-05-27 and 2006-05-12).

Legal mechanisms now in place create the possibility for renegotiation in Nicaragua. For instance, MKJ Exploraciones Internacionales S.A. and Infinity Inc. also own concessions granted at the same time as Norwood's. Those companies have leases on lands as well as undersea tracts that are under the authority of the autonomous Region Autonomo del Atlantico Sur (RAAS) and the Region Autonoma del Atlantico Norte (RAAN). In August 2006, the RAAS won an injunction against the companies, ratified on appeal, based on the RAAS's right to decide on matters involving their own natural resources. RAAN is governed by the Yatama party, which in 2006 entered into a political alliance with Ortega's FSLN.

The FSLN now shares power on the Consejo Regional Autonomo, the regional legislature (see NotiCen, 2006-03-09). The Consejo can override or ratify the contracts, and the FSLN has said it would oppose the contract, which was signed during the administration of ex-President Enrique Bolanos (2002-2007) of the Partido Liberal Constitucionalista (PLC). The FSLN's announcement on the matter said, in part, "Foreign Minister Samuel Santos had a meeting with Caribbean regional

ISSN: 1089-1560

representatives to find a solution that would benefit both parties, in which local concerns for the environmental impact the projects would have and the need for the companies to invest in their development would be considered." During the meeting, the foreign minister agreed to direct the negotiations between the parties to "give continuity to the process of concession of oil exploration in the Nicaraguan Caribbean Sea."

Venezuela guarantees supply

The benefits to Nicaragua of the oil discoveries and the renegotiation of terms will take some time to play out. But Ortega appears to have backup, a way to bridge the gap until the oil flows. He announced at the beginning of May that Venezuela had agreed to increase oil supplies to 100 million barrels a year at preferential terms, as a benefit of Nicaragua's membership in Venezuelan President Hugo Chavez's Alternativa Bolivariana de las Americas (ALBA). "A new agreement has been made for those of us who are members of ALBA," Ortega said. "Therefore, Venezuela will guarantee 100% of Nicaragua's supply, which is 100 million barrels." Under the terms of the agreement, Venezuela will finance 50% of the oil bill.

Another piece crucial to solving Nicaragua's energy puzzle was added in April, when the president of the state-owned Petroleos de Nicaragua (Petronic), Francisco Lopez, announced that the Sandino-Bolivar refinery would be built by Venezuela at a cost of US$2.5 billion. The plant, named for the two countries' national heroes, Augusto C. Sandino and Simon Bolivar, is to be built at Nagorote, Leon, about 100 km west of Managua on the Pacific Coast. The plant will process 150,000 barrels per day and place in serious jeopardy the viability of the refinery that was to be built, most likely in Guatemala, privately in connection with Plan Puebla-Panama (PPP).

As the PPP venture remains stalled by a series of setbacks (see NotiCen, 2007-04-19), the Nicaraguan plant is already well into the basic engineering phase, with Venezuelan and British specialists on-site and working. Lopez played up his country's lead in the race to find reliable and cost-effective relief for the isthmus' fuel problems. "This is Alternativa Bolivariana para las Americas, which Chavez promotes, compared with the Free Trade Area of the Americas (FTAA), backed by the US."

Freeing resources essential to poverty reduction

In his May Day speech to the nation, Ortega said the deal with Venezuela amounted to a very low-interest, US$300 million-a-year, long-term loan. This frees resources to partially meet union demands for a 25% increase in the minimum wage. The government has offered 10% this year, but, said the president, "We have to find resources to get to 15% or more and get closer to the 25% demand the workers have made." Ortega does not intend to let an oil loan alone subsidize income in the country. "We must require that those who pay no taxes, pay, and pay more, to be able to obtain the budget funding to get as close as we can to the workers' proposal."

He reiterated to his audience, who had gathered for an International Workers Day march, his government's commitment to "the great battles against unemployment through health and education, the struggle against poverty and hunger," and said the Venezuelan oil guarantee would let the government spend on a fund for social investment. Ortega also took the opportunity to tell

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ISSN: 1089-1560

the people that he had ordered the police to cease evictions of poor people who had occupied lands in dispute but at the same time to continue to prevent occupations of private properties.

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