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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: How Well is Uruguay's Nascent Oil Sector Advancing?

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Uruguay's state-run oil and gas company, ANCAP, announced last month that it discovered the first traces of underground oil in what may be a "promising shale deposit," according to director Juan Gómez. ANCAP is also preparing to launch a new bidding round for offshore blocks in September and a second round in 2012. Gómez has said the new find and the possibility of offshore oil have attracted significant interest by international investors. How promising is future onshore and offshore development in Uruguay? Does the government have the right regulatory structures in place? What more should it be doing to promote investment in exploration and production? Will environmentalists, concerned over Uruguay's status as one of the least-spoiled countries on the planet, move to block major hydrocarbon projects?

A: Sergio Abreu, senator and former foreign minister of Uruguay:

" 'On shore' prospecting is in a very early stage to be generating concrete expectations. 'Off shore' prospecting offers the possibility of gas, but it has not yet begun to be exploited and ANCAP is widening its search areas. As for oil, ANCAP has an intense and confusing relationship with PDVSA, as much in the Orinoco belt as in the refinery expansion and fuel distribution. ANCAP's debts with PDVSA surpass \$600 million. In the past few years, the management of ANCAP (which is a state-owned monopoly) has been challenged for insufficient transparency and lack of a defined partnership strategy, specifically with regard to the exploration, development and industrialization of hydrocarbons. The regulation of partnerships between government-run businesses and organizations with private businesses or public foreign companies is an open issue and a matter of debate. Parliament is considering a project that would try to regulate these partnerships, especially in the infrastructure industry. In general, the existing legislation is insufficient and could be an obstacle to the realization of important projects involving the exploitation of hydrocarbons. In terms of regulation, there exists a regulatory unit (URSEA) that has jurisdiction over energy matters, especially electricity and gas. This depends on executive power. The promotion of investment in this field would require a greater flexibility of the public agencies involved and updating legislation to encourage and give assurances to investors. The projects that are under consideration in parliament in this regard are not completely satisfactory. So far, there is no significant opposition to oil exploration for environmental reasons. This is partly because there are not yet operational projects and, in the future, will depend on the location and characteristics of these projects. Uruguay has effective

agencies in environmental protection, though it will surely be necessary to establish some specific environmental rules for the exploitation of oil or gas."

A: Thomas O'Keefe, president of Mercosur Consulting Group in San Francisco:

"Large shale oil deposits within Uruguayan waters could finally free the country from its heavy dependence on hydro resources which, while very positive from a low carbon footprint perspective, can be unreliable when there is a shortage of rain. Although the country tried to move toward greater use of natural gas fueled generators for electric power in the late 1990s, these plans fell short of original expectations when Argentina began cutting back on natural gas exports to its neighbors after 2004. Uruguayan governments have shown themselves to be very pragmatic regardless of their political orientation. So I am not worried that Uruguay will get a legal framework in place after much citizen consultation that is attractive to foreign investors. In the end, the country did achieve a consensus on the pulp paper plants on the Uruguay River, after initial strong opposition from environmentalists. So I doubt environmental groups will be able to scuttle offshore hydrocarbons development if a majority of Uruguay's citizens deem it to be in their country's best interests."

A: Andrés Tierno Abreu, president of the National Academy of Engineering of Uruguay and former general manager of ANCAP:

"The onshore case, in my opinion, is promising because the Devonian shale has shown, through a geochemical analysis, free oil and gas traces in samples taken from shallow formation drilling. This is a strong indication of shale gas fields in deeper locations of the same rock in the northwestern part of the country. Concerning the offshore area, the seismic information recovered is encouraging for continuing to acquire and process more data in order to locate exploration wells. Of course, both onshore and offshore operations are frontier exploration, with the normal risks associated. It seems to me that the Uruguayan hydrocarbons law is very competitive to incentivize investment in oil exploration and production, taking into account the unique tax system involved. The government must continue the policy of keeping the rules of the game unchanged for this business as the main promotion driver for investment in any economic sector. Historically, Uruguay never had environmentalist opposition to oil exploration works, so I assume their conduct in the future will be the same."

The Advisor welcomes reactions to Q&A above. Readers can write editor Gene Kuleta at kuleta@thedialogue.org with comments.