December 2004

Uruguay

Uruguay is highly dependent on imported oil and on hydropower to meet its energy needs. In coming years, natural gas via new pipelines from Argentina will likely play an increasing role in Uruguay's energy sector.

Note: all information in this report is the best available as of December 2004 and is subject to change.

GENERAL BACKGROUND

A small country of about 3.4 million people, Uruguay is sandwiched between two much larger neighbors: Brazil and Argentina. Despite its relatively small economy and dearth of natural resources, Uruguay's social conditions have traditionally ranked high in the region. For example, among Latin American nations, Uruguay had the second highest Human Development Index (HDI) score in 2002. Uruguay also has a more equitable income distribution than most countries in the region.

Argentina, Brazil, Paraguay, and Uruguay form the MERCOSUR common market (Chile and Bolivia are associate members). Uruguay's economy is highly connected to those of its MERCOSUR partners. In 2001, almost 50% of Uruguay's exports flowed to them. Given this degree of economic integration, it is not surprising that Uruguay was hurt by its neighbors' financial instability in 2000-2002. After averaging over 4% real annual gross domestic product (GDP) growth between 1992 and 1998, Uruguay subsequently experienced five years of economic contraction.

The worst of Uruguay's economic crisis now appears to be over, with real GDP growing 2.5% in 2003, and forecasted to expand 10.2% in 2004. Integral to this turnaround has been the International Monetary Fund's (IMF) decision to provide a $2.9 billion aid package. Uruguay also has benefited from increased agriculture and meat exports, as well as from growth in domestic industries.

On October 31, 2004, Mr. Tabaré Vázquez, leader of the Broad Front coalition, was elected the next president of Uruguay and will assume office in March 2005.

ENERGY OVERVIEW

With no proven hydrocarbon resources, Uruguay is wholly dependent on imports for oil, natural gas, and coal. In 2002, oil accounted for 42% of the country’s total primary energy consumption, while natural gas and coal made up only 0.5% and 0.04%, respectively. Hydropower remains Uruguay's main energy source, supplying 60% of the country's needs in 2002.

Relying on imported oil and natural gas, as well as on domestic hydropower, has, at times, jeopardized Uruguay's energy supply. Since spring 2004, for instance, Uruguay has been dealing with a number of energy supply challenges – higher global oil prices, lower water levels in domestic hydropower facilities, and decreased power imports (including both electricity and natural gas) from Argentina. The current drought has left Uruguay's hydropower plants operating well below capacity, forcing the government to resort to running more expensive oil-fired power plants (see Figure 2). Meanwhile, reduced imports of electricity and natural gas from Argentina, which has been experiencing its own energy crisis, have prompted the Uruguayan government to sign power supply contracts with Brazil (electricity) and Bolivia (natural gas) to make up for shortfalls.

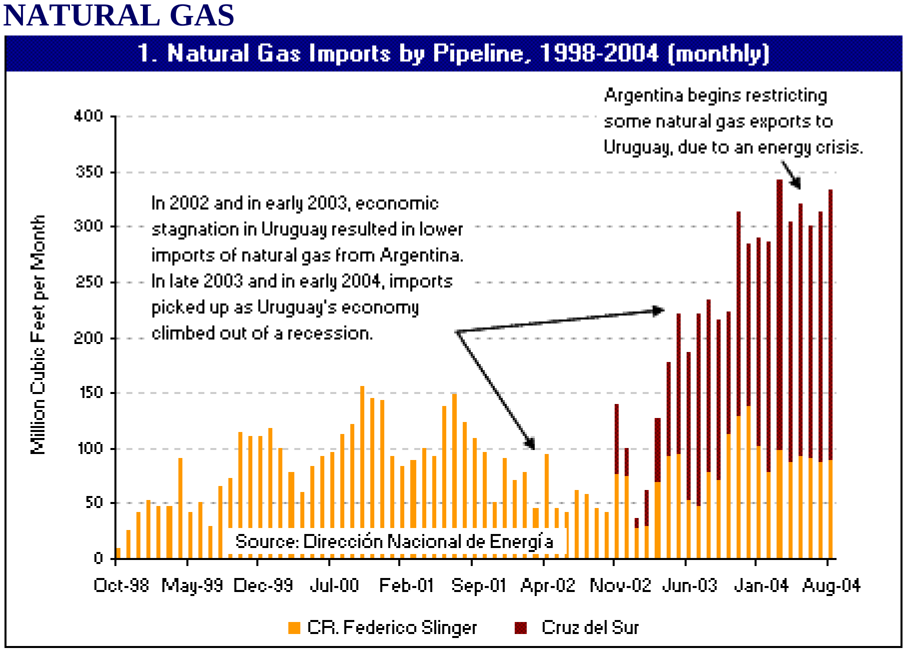
In coming years, it remains unclear how Uruguay will address its current energy situation. A World Bank sponsored energy efficiency program seeks to decrease energy-use and the country's dependence on imported energy, but this initiative is considered unlikely to significantly curb Uruguay's projected 3% annual energy demand growth rate. An alternative solution is the construction of new gas-fired power plants.

OIL

Uruguay has no proven oil reserves, and must import the 31,000 barrels per day (bbl/d) it consumes. The country's sole refinery is the 50,000-bbl/d La Teja facility.

State-owned oil company, Administración Nacional de Combustibles, Alcohol y Portland (ANCAP), controls Uruguay's entire oil sector. The government's attempt to privatize ANCAP in December 2003 failed, as Uruguayans voted by more than 62% to block the initiative. If the referendum had been approved, ANCAP, founded as a state enterprise in 1931, would have been allowed to form a 30-year joint venture with a private company, and would have ended the state's monopoly on importing, refining and exporting oil and petroleum products. Uruguay reportedly has the highest retail fuel prices in the region.

NATURAL GAS



1. Natural Gas Imports by Pipeline, 1998-2004 (monthly)

In a move to diversify its energy mix and to meet future power demand, Uruguay began importing natural gas from Argentina in late 1998.

In 2002, Uruguay consumed 710 million cubic feet of natural gas, down nearly 50% year-on-year. The drop in gas consumption was mainly due to economic stagnation in Uruguay and to decreased consumption from the industrial sector, the country's main consumer. With the country climbing out of a recession in 2003, natural gas imports from Argentina initially picked up, but, since April 2004, have remained relatively flat, due to an energy crisis in Argentina. In April 2004, Argentina began limiting natural exports to both Uruguay and Chile in order to meet domestic demand (see Figure 2). In September 2004, Uruguay signed a natural gas supply agreement with Bolivia in order to compensate for continued shortfalls from Argentina.

In coming years, the Uruguayan government expects natural gas to play a larger role in the country's energy mix, particularly for power generation. The country's hydroelectric potential has been largely exploited and Uruguay's existing thermal power generation facilities reportedly are inefficient and need to be replaced or modernized. The government has hoped to attract private companies to build gas-fired power plants, but the country's recent economic crisis and supply concerns with Argentina have delayed these plans. On a positive note, state-owned utility, Administración Nacional de Usinas y Transmisiones Eléctricas (UTE), expects to award a tender to build a new 350-400 megawatt (MW) gas-fired power plant in late 2004. Fiat, General Electric, Alstom and Siemens Westinghouse reportedly submitted bids for the plant in June 2004.

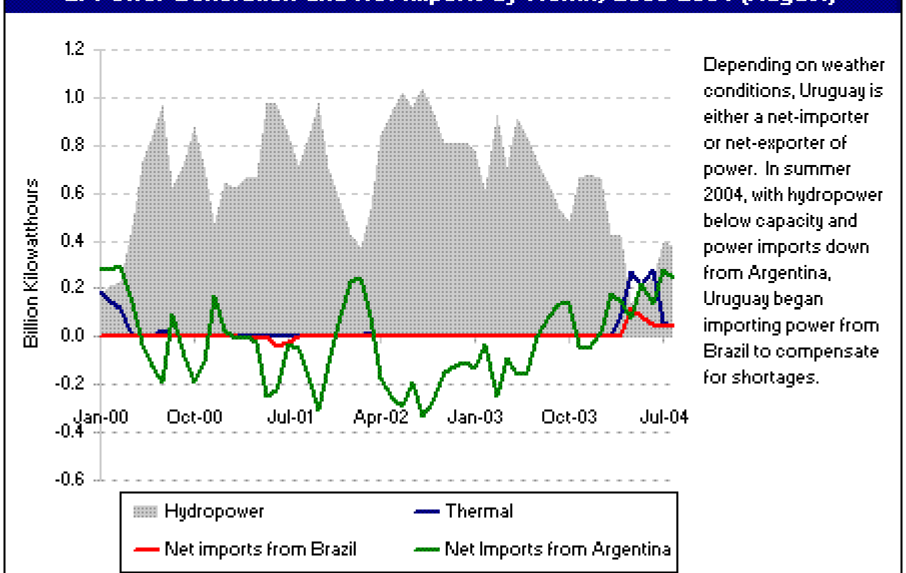
Infrastructure

Pipelines

There are two natural gas pipelines connecting Uruguay to Argentina. The first pipeline, known as CR. Federico Slinger (also know as Gasoducto del Litoral), runs 12 miles from Colón in the Argentine state of Entre Ríos, to the city of Paysandú in western Uruguay. The pipeline, constructed and operated by ANCAP, began operations in November 1998 and has an operating capacity of 4.9 million cubic feet per day (Mmcf/d).

In 2002, a consortium comprising British Gas (40%), Pan American Energy (30%), ANCAP (20%), and Wintershall (10%) completed the second pipeline - Gasoducto Cruz del Sur (GCDS, Southern Cross pipeline). The GCDS stretches 126 miles, linking Argentina's natural gas grid (Transportadora de Gas del Sur) to Montevideo, the capital of Uruguay. The first section of the pipeline crosses the River Plata from Punta Lara (Argentina) to Colonia (Uruguay), from where it stretches 91 miles to Montevideo. The GCDS project also includes a concession covering a possible extension of the pipeline to Porto Alegre, 540 miles north of Montevideo in southern Brazil. The pipeline has a transportation capacity of 176 Mmcf/d.

2. Power Generation and Net Imports by Month, 2000-2004 (August)



3. Hydropower and Thermal Production by Month, 2000-2004 (August)

Distributors

Conecta and Gaseba are responsible for distributing natural gas in Uruguay. Gaseba, owned and operated by Gaz de France (51%), Pan America Energy (34%) and Acodike (15%), is responsible for distribution in Montevideo, while Conecta supplies the remainder of the country. Union Fenosa, a part owner of Conecta, has reportedly been in negotiations with Brazil's Petrobras to sell its 55% stake in Conecta. ANCAP owns the remaining 45% stake in

Conecta.

ELECTRICITY

In 2002, Uruguay consumed 7.2 billion kilowatthours (Bkwh) of electricity, down 4% year-on-year, mainly due to a recession. Power generation in 2002 also decreased year-on-on to 9.1 Bkwh. During the past decade, Uruguay’s power consumption grew 3.3% annually from 1993 to 2002.

The bulk of the country’s installed electric generating capacity of 2.1 gigawatts (GW) comes from four hydroelectric dams: Salto Grande (945 MW); Gabriel Terra (152 MW); Baygorria (108 MW); and Constitución (333 MW). The Salto Grande hydropower plant actually has an installed capacity of 1,890 MW, but the facility is jointly owned and operated by Argentina and Uruguay, with capacity divided evenly between the two countries. Thermal-fired power plants make up the remainder of Uruguay’s installed electric generation capacity.

Under normal weather conditions, Uruguay's hydroelectric power has been able to cover 80% of the country's electrical demand. As seen in Figures 2 and 3, power production from Uruguay’s four hydropower plants can fluctuate considerably due to the weather. In early 2004, for instance, a drought severely limited hydropower production in Uruguay, with the Salto Grande facility, the country’s largest producer of electricity, reportedly operating at 40% of its capacity. Uruguay’s remaining hydropower plants were also operating below capacity. In order to compensate for power shortfalls, UTE began generating electricity from its normally-dormant thermal-fired power plants. UTE also awarded Enertrade, a subsidiary of Portugal’s Electricidade de Portugal, a contract (interruptible) to import power from Brazil.

Sector Organization

UTE is responsible for transmission and distribution activities in Uruguay, as well as for most of the power generation. Since 1997, Uruguay’s regulatory agency - Unidad Reguladora de la Energía Eléctrica (UREE) - has overseen the country’s power market. In December 2002, the government bundled UREE into a larger agency, known as Unidad Reguladora de la Energía y Agua (URSEA). Another 1997 law permitted independent producers to generate power, introducing competition to the sector. UTE has the option of taking 40% stakes in any new power plants built by the private developers. The law also promised the creation of a wholesale power market to be monitored by the Electricity Market Administration (ADME). The market is not yet functioning as the government continues postponing its launch. Once ADME is operating, large energy consumers (above 500 kilowatthours) will be able to choose their supplier. Another aspect of the 1997 law which has yet to be upheld is the division of UTE into separate companies for generation, transmission and distribution.

Sources for this report include: CIA World Factbook; Economist Intelligence Unit; Factiva News Service; Financial Times; Global Insight; Latin America Monitor; Naphthenics Market Magazine; New York Times; Oil and Gas Journal; Petroleum Economist; Platt's Global Energy; US Energy Information Administration; World Markets Energy.

COUNTRY OVERVIEW

President: Jorge Batlle (since March 2000) - Mr. Tabaré Vázquez will replace President Batlle in March 2005)
Independence: August 25, 1828 (from Brazil)
Population (2004E): 3.4 million
Location/Size: Southern South America, bordering the South Atlantic Ocean, between Argentina and Brazil / 68,038.9 sq. miles
Capital: Montevideo

Language: Spanish (official), Portunol, or Brazilero (Portuguese-Spanish mix on the Brazilian frontier)
Ethnic Groups: White 88%; Mestizo 8%; Black 4%; Amerindian are practically nonexistent
Religion: Roman Catholic 66%, Protestant 2%, Jewish 1%, nonprofessing or other 31%

ECONOMIC OVERVIEW
Minister of the Economy and Finance: Isaac Alfie
Currency: Uruguayan peso
Market Exchange Rate (11/9/04): US$1=26.98 Uruguayan pesos;
Nominal Gross Domestic Product (GDP, 2003E): $11.2 billion
Real GDP Growth Rate (2003E): 2.5% **(2004E):** 10.2% **(2005F):** 5.1%
Inflation Rate (consumer prices, 2003E): 19.4% **(2004E):** 9.6% **(2005F):** 7.3%
Unemployment Rate (2004E): 16%
Major Trading Partners: Brazil, Argentina, European Union, United States
Merchandise Exports (2003E): $2.2 billion
Major Export Products: meat, rice, leather products, wool, vehicles, dairy products
Merchandise Imports (2003E): $2.1 billion
Major Import Products: machinery, chemicals, road vehicles, crude petroleum
Merchandise Trade Surplus (2003E): $100 million
Current Account Balance (2003E): $76 million

ENERGY OVERVIEW
Minister of Industry, Tourism, Energy, and Mining: Pedro Bordaberry
Oil Reserves and Production: None
Oil Consumption (2004E): 31,000 barrels per day (bbl/d), all of which is imported
Crude Oil Refining Capacity (1/1/04E): 50,000 bbl/d
Natural Gas Reserves and Production (2002E): None
Natural Gas Consumption (2002E): 0.7 billion cubic feet, all of which is imported
Coal Reserves and Production: None
Coal Consumption (2002E): 2.6 thousand short tons
Electricity Generation Capacity (2002E): 2.1 gigawatts (71% hydroelectric, 29% thermal)
Electricity Production (2002E): 9.1 billion kilowatthours (Bkwh)
Electricity Consumption (2002E): 7.2 Bkwh

ENVIRONMENTAL OVERVIEW
Minister of Housing and Environment: Saul Irureta Saralegui
Total Energy Consumption (2002E): 0.15 quadrillion Btu* (0.04% of world total energy consumption)
Energy-Related Carbon Dioxide Emissions (2002E; includes natural gas flaring): 4.4 million metric tons (0.03% of world total carbon dioxide emissions)
Per Capita Energy Consumption (2002E): 44.6 million Btu (vs. US value of 339.1 million Btu)
Per Capita Carbon Dioxide Emissions (2002E): 1.3 metric tons (vs. US value of 20.0 metric tons)

Energy Intensity (2002E): 6,455 Btu/$1995 (vs. US value of 10,619 Btu/$1995)**
Carbon Dioxide Intensity (2002E): 0.19 metric tons/thousand $1995 (vs. US value of 0.63 metric tons/thousand $1995)**
Fuel Share of Energy Consumption (2002E): Hydroelectricity (60%), Oil (42%), Natural Gas (0.5%), Other Renewables (0.3%), Coal (0.04%), Net Imports (-2.9%)
Fuel Share of Carbon Dioxide Emissions (2002E): Oil (99%), Natural Gas (1%)
Status in Climate Change Negotiations: Non-Annex I country under the United Nations Framework Convention on Climate Change (ratified August 18th, 1994). Uruguay ratified the

Kyoto Protocol on February 5th, 2001.
Major Environmental Issues: water pollution from meat packing/tannery industry; inadequate solid/hazardous waste disposal.
Major International Environmental Agreements: Party to: Antarctic-Environmental Protocol, Antarctic-Marine Living Resources, Antarctic Treaty, Biodiversity, Climate Change, Climate Change-Kyoto Protocol, Desertification, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Ozone Layer Protection, Ship Pollution, Tropical Timber 94, Wetlands. Has signed, but not ratified, Marine Dumping, Marine Life Conservation, and the Nuclear Test Ban.

ENERGY INDUSTRY
Organization: Oil, natural gas, and refining - Administración Nacional de Combustibles, Alcohol y Portland (ANCAP), the state oil and gas company; Electric power - Administración Nacional de Usinas y Transmisiones Electricas (UTE), the state electricity company.
Port: Montevideo
Major Oil/Gas Producing Fields (2003): none
Refinery (Capacity -- 1/1/04E): ANCAP-La Teja, Montevideo (50,000 bbl/d)

* The total energy consumption statistic includes petroleum, dry natural gas, coal, net hydro, nuclear, geothermal, solar, wind, and wood and waste electric power.
**GDP figures are based on OECD figures using purchasing power parity (PPP) exchange rates.

LINKS

For more information from EIA on Uruguay, please see:
EIA - Country Information on Uruguay

Links to other US government sites:
US State Department Country Reports On Economic Policy and Trade Practices -- Uruguay
US Department of State, Consular Information Sheet -- Uruguay
Country Background Notes -- Uruguay
CIA World Factbook - Uruguay

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Government
Administración Nacional de Combustibles Alcohol Y Portland (State-owned oil and gas company)
Administración Nacional de Usinas y Transmisiones Electricas (State-owned utility company)
Ministerio de Industria, Energía y Minería (Ministry of Industry, Energy and Mines)

Natural Gas Distributors
Conecta
Gaseba

Pipeline
Gasoducto Cruz del Sur

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