Hydrocarbon Exploration

New onshore and offshore exploration activities have located Uruguay in the world’s oil map.
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1. Executive Summary

Even though Uruguay is not an oil-producing country, and has not yet proven reserves, in recent years significant advances have been made in understanding the country's subsoil and continental shelf and the possibility of having commercially exploitable accumulations are increasing.

Currently the country is negotiating with the United Nations the expansion of its continental shelf. Negotiations, which are at a very advanced stage, will allow to almost double the territorial waters, greatly increasing the country's potential resources.

Within the Strategic Energy Policy Guidelines, agreed by all political parties for the 2008–2030 period, the need to reduce dependence on external energy sources has been raised. In particular, regarding exploration and production of hydrocarbons, it was specifically established to ensure vertical integration of ANCAP, through the search of oil and gas in the country.

In this context, the regulatory and institutional framework to advance in the prospecting and exploration of hydrocarbons is been strengthened. In this regard, in 2007 began a process of preparation of bidding rounds. The initial objective was to attract premier oil companies willing to invest in exploration in offshore platform in our country. ANCAP assumed this responsibility through the completion of a work that achieved an excellent preparation and international dissemination of existing knowledge from the Uruguayan underground.

Exploration and exploitation contracts are currently being executed, both on shore and offshore, under the production sharing modality, in which the contractor bear the exploration risk and in retribution it is rewarded with a part of the production, in case of a commercial discovery.

For onshore production an open system has been established, in which qualified oil companies can submit bids that are assessed on a quarterly basis.

For offshore exploration a competitive process (Round) system has been established in which areas are offered for exploration and exploitation and companies compete according to their exploratory programs and the sharing of tendered profit oil. Uruguay Round 3 will soon be launched.

Leading international oil companies (Total, Shell, British Petroleum, British Gas, Tullow Oil and Galp among others) are participating in these activities together with geological and geophysical service companies who have been hired to achieve better understanding of the Uruguayan soil.

These activities have helped to improve the capacities of national technicians and have promoted liaison with international experts in the industry. New exploratory stages must be accompanied by increased formation of human resources, the implementation of a regulatory framework to ensure the proper development of the activity, advances in technology, and improvements in logistics and infrastructure capabilities of the country. All this represents significant challenges for Uruguay.
Opportunities for hydrocarbon exploration

2. Hydrocarbons in Uruguay

Uruguay is not an oil-producing country and has not yet proven hydrocarbon reserves\(^1\).

The State company, ANCAP (National Administration of Fuels, Alcohol and Portland Cement), has the monopoly on production, export and import of oil and oil by-products. At the same time, it is responsible, itself or through third parties, for hydrocarbon exploration and exploitation activities in the country. Sections 3 and 4 herein describe the regulatory and institutional framework under which these activities are governed.

In Uruguay hydrocarbons are the main source of energy supply\(^2\). Although, in the context of a major restructuring of the energy matrix, the share of renewable sources will substantially increase in the next few years, the dependence on hydrocarbons will still remain important.

**Chart No. 1 - Energy sources in Uruguay, 2012.**

![Energy sources in Uruguay, 2012](chart)

- Oil & oil derivatives: 59%
- Hydroelectric: 10%
- Biomass: 29%
- Natural gas: 1%
- Imported electricity: 1%
- Other: 0%

Source: National Board of Energy, MIEM.

In the last decade, strong economic growth has fueled an increase in energy demand, including a significant boost in the demand for hydrocarbons.

**Chart No. 2 - Uruguay. Imports of hydrocarbons and derivatives.**

![Uruguay. Imports of hydrocarbons and derivatives](chart)

Source: BCU.

In relative terms, Uruguay's share of hydrocarbon consumption is insignificant compared with other countries in the region.

**Chart No. 3 - Hydrocarbon consumption in the region (Millions of toe, 2012).**

![Hydrocarbon consumption in the region](chart)

Source: Statistical Review of World Energy 2013, BP.

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\(^1\) Hydrocarbons refer to petrol, natural gas and liquefied gas.

\(^2\) Source: National Energy Balance, National Board of Energy, MIEM.
Opportunities for hydrocarbon exploration

In the framework of the Strategic Energy Policy Guidelines, proposed by the executive Branch in 2007 and approved by a Multi-Party Committee in 2010, the need to diversify energy sources and reduce the dependence on foreign sources emerged. In terms of energy supply, the vertical integration of ANCAP is sought, through the search for oil and gas in Uruguay and evaluating the possibility of joint oil exploration in other countries.

ANCAP has participated in many hydrocarbon prospecting and exploration undertakings, dating back to the late 1940s. Although, so far no hydrocarbon reserves have been found (onshore or offshore) significant advancements have been made in understanding the subsoil and its potential. These studies provide a basis for the resumption of prospecting and exploration activities in 2007.

In section 6 the characteristics of recently conducted exploration activities are analyzed, both onshore and offshore, and the opportunities that will arise in the short term are identified.
3. Regulatory Framework

Decree-Law No. 14,181 (Hydrocarbons Law) and its regulatory decree 366/974 establish provisions for exploration and exploitation activities. The abovementioned regulations set forth that all hydrocarbon deposits and accompanying substances located within the country belong to Uruguay and can only be explored and exploited by the State. Exploration includes studies, research, recognition of surface, prospecting and any other activities related to the search for these substances.

It also states that ANCAP is the competent body to carry out all activities, businesses and operations of the hydrocarbon industry. In this regard, ANCAP may execute any of the oil operating stages, by itself or through third parties, whether domestic or foreign.

Furthermore, the Mining Code (approved by Decree-Law 15,242) and regulatory decrees (110/982 and 545/989) classify hydrocarbons within a specific type of field, field type 1, comprising: a) fossil fuels including oil, natural gas, coal, lignite, peat, pirobituminous rocks and oil sands; b) other deposits of mineral substances or elements suitable for industrial generation of energy.

The law provides specific regulations for this type of reservoirs. It states that associated mining activity (Prospection, Exploration and Exploitation) will be conducted by ANCAP, on its own account or through third parties, whether domestic or foreign.

Mineral substances of field Type 1, when separated or removed from the field, are incorporated into the domain of the State, except for the volumes needed to repay the production cost or reward the contractor.

Contracts may take any form, including those in which contractors bear the risk. The contractual terms and conditions should be authorized by the Executive Branch, who should also approve the contract to be signed. Contractors are selected by means of an invitation to tender or a public tender, with the possibility of omitting these procedures and contracting directly with authorization from the Executive Branch.

Contractor reward may be in kind, under the condition that the State agency will be entitled to purchase from the contractor the volumes that are to be allocated to the domestic market.

Continuously open system – Onshore Exploration

Decree 454/006 establishes the submission of tenders regime for the awarding of prospecting, exploration and exploitation of hydrocarbons. At present, this regulation applies to onshore exploration, since specific regulations have been enacted for offshore exploration³.

This decree sets forth a continuously open system, in which qualified oil companies can submit bids that are assessed on a quarterly basis. Production Sharing Agreements are specified, under which the contractor carries out the investment and is rewarded with a share of the eventual production.

The maximum duration term of the contracts is 30 years, with the possibility to be extended for 10 more years. Prospecting shall take place for a period of 2 years, while for exploration-exploitation agreements, sub-periods of 3, 2 and 2 years are established in the exploration stage with incremental commitments of exploratory efforts.

ANCAP may partner with the contractor for up to 50% in the exploration stage.

³Decrees 186/008, 463/009 and 267/011 established the suspension of decree 454/006 for prospection, exploration and exploitation in the continental shelf.
Bidding round system – Offshore exploration

A system of competitive rounds has been chosen for Offshore activities.

*Decree 577/008* established the basis for the oil company selection process for the exploration and exploitation of hydrocarbons offshore in the Republic of Uruguay in Uruguay Round 2009.

Subsequently, *Decree 316/011* set the guidelines for Uruguay Round II.

Interested oil companies had to provide legal, financial and technical documentation to qualify as an operator in all areas, shallow water operator or non participating operator.

The contract term is for 30 years which may be extended up to 10 more years. In the Exploration stage, sub-periods of 3, 3 and 2 years are established varying according to its exploratory commitment. The Exploration stage has a maximum term of 25 years and the annually approved work programs must be executed.

Companies compete for offered areas in accordance with the proposed:

- Committed exploratory program (wells, 3D seismic, 3D electromagnetism, etc.)
- Profit Oil distribution
- Degree of partnership with ANCAP (between 20 and 40%)

By resolution of the Ministry of Industry, Energy and Mining (MIEM) -on April 23, 2014- a new bidding round, *Uruguay Round 3*, was approved. In addition, a committee, composed by representatives of MIEM and ANCAP, was created to analyze the basis for the selection of the oil companies and the guidelines of contracts to be held⁴.

Environmental Protection

In terms of environmental conservation and protection, the environmental authority, the National Environment Bureau (DINAMA) formulates, implements, monitors and evaluates national plans for environmental protection. In addition, it proposes and implements national policy in this area, combining these needs with environmental protection and sustainable development, through the Ministry of Environment (MVOTMA), coordinating exclusively integrated environmental management of the State and public bodies in general.

In May 2013, the *Interministerial Commission for Technical Assessment* was created with the aim of gaining deeper knowledge in terms of conventional and non conventional prospecting, exploration and exploitation technologies. This commission is responsible for studying and evaluating said technologies incorporating the monitoring of international experience, considering its social, economic and environmental effects and elaborating proposals that direct informed decisions and minimize potential risks. It is composed by representatives of MIEM, MVOTMA and ANCAP and operates under the Ministry of Industry, Energy and Mining⁵. In April 2014, the commission’s work plan was approved⁶.

⁴ MIEM resolution on 04-23-2014.
⁵ Decree 148/13.
⁶ Resolution 221/014.
4. Institutional framework

The Executive Branch is responsible for everything related to the design, programming, regulation and control of the implementation of the energy policy. In particular, it is in charge of the definition of technical and contractual conditions for the different tenders for exploration and production of hydrocarbons.

The National Board of Energy (DNE), of the Ministry of Energy and Mining (MIEM) is the agency responsible for designing, conducting, coordinating and evaluating the energy policy.

ANCAP is an independent agency created by Law in 1931 (Ley No. 8,765) and is the competent entity in the execution of all activities related to the hydrocarbon industry, as it’s established by the legal framework described in the previous section.

It is the State-owned company that has the monopoly on production, export and import of oil and oil by-products.

Within ANCAP, the Exploration and Production department (E&P) is responsible for the technical support in the area, the implementation of bidding rounds and monitoring service contracts. This department is responsible, among other functions, of: technical audits, proposing exploratory areas, administration and supervision of royalties, obtaining geological information, data and information reference center, technical advice in Geosciences and Engineering in E&P to other areas of ANCAP and public institutions and promotion activities.

In order to strengthen national capacities and to address the development of the hydrocarbon sector, the DNE is working on a cooperative project with the World Bank under which information dissemination seminars will be organized in November 2014 and during 2015.
Moreover, the National Environment Bureau (DINAMA), under the Ministry of Housing, Land Planning and Environment (MVOTMA), is responsible for granting Prior Environmental Authorization for exploration activities and Environmental Authorization for Operation for an eventual exploitation stage.

The National Aquatic Resources Bureau (DINARA), under the Ministry of Livestock, Agriculture and Fisheries of Uruguay (MGAP), is the state agency responsible for regulating and controlling fishing and aquaculture activities in Uruguay. Insofar as offshore activities may affect fish resources, DINARA becomes a relevant player.

The National Port Authority (ANP) is an autonomous body, related to the Executive Branch through the Ministry of Transport and Public Works. It is responsible for the administration, conservation and development of the country's major ports. It is a very important player given that all logistic activities related to offshore exploration must be coordinated from ports under its administration.
Opportunities for hydrocarbon exploration

Activities to be conducted on the offshore platform are under the jurisdiction of the Navy and its National Coast Guard division. In addition, through its Oceanography, Hydrography and Meteorology Service it provides assistance and ensures safety to vessels performing work in Uruguayan waters.

www.armada.mil.uy

The Customs Authority, under the Ministry of Economy and Finance, in its control role of trade operations, plays an important part in the entry of inputs for the exploration and production of hydrocarbons.

www.aduanas.gub.uy

Furthermore, the Regional Association of Oil and Gas and Biofuels Sector Companies in Latin America and the Caribbean (ARPEL), based in Montevideo, can play an important role in the coordination between the public and private sector.

www.arpel.org
5. Regulation to promote investment in Uruguay

5.1 General Investment Promotion Scheme (Law 16,906)

Foreign investors enjoy the same benefits as national investors and do not require prior authorization to operate in the country.

Law 16, 906 of 7 January 1998 declares the promotion and protection of domestic and foreign investment of national interest. Decree 002/012 updated the regulations of said law. By virtue of said decree and for any investment projects submitted and promoted by the Executive Branch, between 20% and 100% of the invested amount may be computed as part of the Corporate Income Tax (IRAE), depending on the type of project. The normal Corporate Income Tax rate is of 25%. Personal property included in fixed assets and civil works are also exempt from Wealth Tax. VAT included in the purchase of materials and services for civil works can be recovered.

Moreover, the import of personal property included in fixed assets which have been declared not competitive with national industry is exempt from import taxes or duties, as declared by said law.

5.2 Promotion of specific investments in hydrocarbon exploration

Decree 354/009 operates under the framework of Law No. 16,906, which promotes the exemption of income tax generated by the development and performance of a series of activities related to the generation of energy.

In particular, prospection and exploration activities for minerals classified as Type 1 by the Mining Code, Law No. 15,242 (see section 3) are exempt from Corporate Income Tax (IRAE), as follows:

a) 75% of taxable income arising from financial years beginning between 1 July 2009 and 31 December 2013.

b) 40% from financial years beginning between 1 January 2014 and 31 December 2018.

For offshore exploration, Decree 68/013 establishes a specific regime for exploratory activities in the framework of Uruguay Round II. Activities are declared promoted and incurred costs and expenses shall be considered eligible investment for tax benefits contemplated by Law 16,906.

Furthermore, a series of additional benefits are set forth.

For awarded prospection or exploration contracts with ANCAP:

» Tax credit for VAT included in the acquisition of goods and services intended to be part of the cost of the covered activities.

» Exemption from Income Tax for Non Residents (IRNR) on interests on loans granted by foreign entities.

» Exemption from customs duties on machinery, equipment, materials, tools, vehicles and inputs required for the development of the activities covered.

For subcontractors:

» Exemption from IRAE and IRNR on income derived from covered activities.

» Exemption from VAT on the sale of goods and the provision of services related to covered activities.

» Tax credit for VAT included in the acquisition of goods and services intended to be part of the cost of the covered activities.

» Exemption from Wealth Tax (IP) on goods and rights affected to the activities covered.

» Exemption from customs duties on machinery, equipment, materials, tools, vehicles and inputs required for the development of the activities covered.
Opportunities for hydrocarbon exploration

Nowadays there is no tax framework for the eventual hydrocarbon production activities. Since this activity has substantially different characteristics, both as regards long-term investment as amounts involved and revenue generated, the Government is working on outlining a scheme that considers all interests involved.

5.3 Other special regimes

Law on Free Zones

Free Zones in Uruguay are regulated by Law No. 15,921 of 17 December 1987. They can be operated on a private or state basis. Free Zones under private operation are administered, monitored and controlled through the General Trade Office - Free Zone Area, Ministry of Economy and Finances\(^8\). This office is the main point of contact for all the regulations, permits and controls regarding Free Zones in the country. As for state operated free zones, this is the area in charge of their management.

Free Zones can operate trade, industrial or service activities. Companies in Free Zones can provide services to other countries and, in some cases\(^9\), to Uruguay. Industrial activity may not only involve added value but also change in the nature of goods.

Companies which are allowed to develop their activities in free zones can be natural or legal persons under any type of corporate form, including bearer shares companies, which assure investors anonymity (free zone users). As for legal persons, there are no restrictions on their form but they need to have an exclusive purpose. There is no distinction between domestic or foreign investments and the latter are not required to meet any special process or requirement. Foreign companies are allowed to setup branches. Up to 25% of their staff can be foreign\(^10\).

Sales from the national customs territory to the Free Zone are deemed exports from the country and sales from the Free Zone to the national customs territory are deemed imports and, therefore, they are subject to the applicable customs and national duties. This is due to the Free Zone being considered a customs exclave.

Sales from a Free Zone to MERCOSUR (including Uruguay) are subject to the block’s Common External Tariff (AEC) applicable to goods coming from other countries, except for some particular exceptions set forth in bilateral agreements executed within the framework of MERCOSUR with Argentina and Brazil. The application of AEC to this type of goods is governed by MERCOSUR Decision 08/94, whereby these goods “lose their source” from a tariff perspective. The Uruguayan government will renegotiate this restriction within MERCOSUR as from the introduction of free zones within the sphere of Customs control provided for by the new Customs Code.\(^11\).

Goods can be indefinitely kept in the free zones and their destination can be changed at any time.

Benefits granted to companies set up in Free Zones include the following areas:

- Corporate Income Tax (IRAE), Wealth Tax (IP) and any other current or future domestic tax exemption. The State is the guarantor of this exemption.
- Dividends distributed among shareholders domiciled abroad are also tax-exempt in Uruguay.

\(^{10}\) Note: This percentage can be reasonably increased, with the prior authorization from the government. It is worth mentioning that there is a Bill which provides for a more flexible integration under analysis.

\(^{11}\) According to the new customs code, Customs have controlling power within the free zones. The Law on the New Customs Code is expected to be enacted this year.
Foreign staff may be exempt from making social security contributions in Uruguay.

Sales and purchases of goods and services to and from abroad are VAT exempt. Sales and provision of services within ZF are also VAT exempt.

Non-resident entities are also IRAE exempt regarding activities developed with foreign goods declared in transit or kept within Free Zone, when they are not bound for the national customs territory. They are also IRAE exempt when sales bound for the national territory do not exceed 5% of the total disposals of goods in transit or kept within Free Zone.

Goods traded by Free Zones with the rest of the world are exempt from customs duties.

**Bill: Special Economic Zones**

Throughout these 25 years of validity, Free Zones regulatory framework has been successful in attracting investments, creating jobs and diversifying exports. The Special Economic Zone Bill which updates Law No. 15,921 is generally aimed at making two adjustments. On the one hand, it updates and distinguishes the outlined purposes and, on the other hand, it expands the regime in order to foster activities that promote countrywide development within a context of deep transformation at global and local levels.  

The first change proposed affects the name of the regime: from Free Zones to Special Economic Zones; and the “operators” of the regime would become “developers.”

Another change would be keeping the minimum percentage of national labor at 75% for industrial and commercial activities and reducing it to 50% for services activities, as this would be a hindrance for the setup of companies that render Global Exports Services. Moreover, additional benefits are granted to developers who submit inland projects as a means to develop economic processes with regional significance.

Finally, it is worth mentioning that all rights acquired by already setup companies remain unchanged as a sign of the stability and continuity of the regime (which has remained unaltered for six periods of government under three different politic parties). In line with this, the abovementioned changes have no effect on the international agreements executed by Uruguay regarding Free Zones.

**Free Ports**

The Free Port system was established by Law No. 16,246 on Ports of April 1992, as regulated by Regulatory Decree No. 412/992, both for the Port of Montevideo and other ports with capacity to receive overseas vessels (Nueva Palmira, Colonia, Fray Bentos and Paysandú).

Among other things, the law provides for the free movement of goods within the port customs facilities without requiring authorizations or formal processes, and for the free change of destination thereof during their stay at said facilities, free from taxes and duties applicable to imports.

[^12]: With regard to the updating of objectives, new objectives have been incorporated into the existing ones: the increase of national labor skills, generation of national added value, development of high-technology and innovation activities, decentralization of economic activities and regional development. The authorization of the development of new zones only to projects located outside the Metropolitan Area and which entail important economic investments or less significant investments but which purpose is to settle projects with high technological content in the country that contribute to the national development in areas such as science, technology and innovation is expected. In addition, a new particular form called Service Thematic Zones, aimed at promoting activities in the health care, amusement and entertainment and audiovisual areas is included.
Opportunities for hydrocarbon exploration

Within port facilities the free movement of goods is exempt from domestic taxes and services rendered are VAT exempt. Moreover, it provides for the possibility to perform several operations with goods, such as “warehousing, repacking, rebranding, classification, batching and unbatching, consolidation and deconsolidation, handling and segmentation.” Foreign legal persons are Wealth Tax exempt for goods kept in warehouses and Corporate Income Tax exempt for income related to said goods. The new Uruguayan Customs Code, which has not been enacted yet, amends the currently “indefinite” term for the warehousing of goods to 5 years, which can be extended.

In turn, contrary to the Free Zones, the regulations applicable to Free Ports give the possibility to keep the certificate of origin - MERCOSUR, and use the duty preferences it grants. Moreover, it allows the issuance of derived certificates of origin.

Public-Private Partnership Contracts

Public-Private Partnership (PPP) refers to all contracts in which a public administration office commissions a private company, for a given period, to carry out the design, construction, operation and financing of infrastructure. Law No. 18,786 of July 2011 sets the regulatory framework applicable to this scheme.

Said contracts can be entered for the development of infrastructure in the following activity sectors:

- Road, rail, port and airport works
- Energy infrastructure works
- Waste disposal and treatment works
- Social infrastructure works, including prisons, medical centers, educational establishments, social housing, sports complexes and improvement works, urban supply and development.

The contracting procedure includes several stages: public or private initiative process, prior appraisal, approval of research by the Office of Planning and Budget (OPP) and the Ministry of Economy and Finance (MEF), request for tenders, submission of bids, review and contract awarding.

With regard to these types of contracts, the institutional framework comprises several institutions. The Public-Private Partnership Unit operates in the Ministry of Economy and Finance (MEF) and among other duties is in charge of the follow-up of the economic and financial aspects of the bid in relation to the previous research carried out on the project. On the other hand, the contracting Public Administration is responsible for the design, structuring and execution of Public-Private Partnership contracts, as well as monitoring the appropriate execution and compliance with obligations undertaken by the contracting parties. The National Development Corporation (CND) is responsible for the promotion of the Public-Private Partnership projects and the preparation of the technical guidelines applicable to such projects. The Office of Planning and Budget (OPP), among other duties, is in charge of ensuring the proper development of each project according to the conditions and key features of the PPP contract model\(^{13}\).

\(^{13}\) See Public-Private Partnership Contracts, Uruguay XXI.
6. Exploration opportunities

In 2005, a new stage began in hydrocarbon prospecting and exploration in Uruguay. Advancements have been made in geological survey enabling improvements in the search of oil and gas, both onshore as well as offshore.

Actions undertaken have situated Uruguay on the map of major international oil companies as a location with promising prospects for the commercial exploitation of new oil fields.

6.1 Onshore exploration

Onshore exploratory activities are conducted in the contractual framework defined by Decree 454/006 (see section 3).

Currently, ANCAP has signed 3 agreements on Exploration–Exploitation for the search of hydrocarbons in the onshore area of Uruguay\(^{14}\).

In February 2012, ANCAP and the U.S. company Shuepbach Energy LLC signed 2 agreements on Exploration–Exploitation on 2 onshore areas of the country. One of the agreements is in an area of 9,890 km\(^2\) on which work had been previously conducted since 2009 in the framework of a prospection agreement; and the other in an area of 4,000 km\(^2\). These new contracts represent a significant step forward in the onshore exploration of hydrocarbons in Uruguay.

As detailed on the map, the exploration-exploitation agreement area located in the North–Central region of the country, comprises the departments of Durazno, Tacuarembó and Salto; while the Western region includes the departments of Salto and Paysandú. The exploration program agreed between the parties includes: completion of 570 km of 2D seismic and drilling study. The deadline for completion of the exploration activities is 3 years with an option to move to the next exploration period of 2 years in which the company assumes the obligation to drill 2 exploratory wells.

In October 2013, ANCAP and Total signed a 30-year agreement for onshore hydrocarbon exploration and exploitation works in blocks B1 and B2, located in Artigas and Salto. The operator is completing the first exploration stage, performing work commitments entered into by the contract.

In 2013, a prospection agreement was also signed with the company Petrina S.A. for the departments of Rivera and Cerro Largo.

In addition, YPF completed a prospection contract it has signed with ANCAP in March 2012. The area where the activities had been undertaken is located in the North region of the country, covering the departments of Salto, Artigas, Rivera and Tacuarembó in an area of 9,694 km\(^2\) (see map). Geochemical, petrographic and petrophysical studies were conducted; 2D seismic reprocessing; reinterpretation of electric logs and geochemical prospecting.

ANCAP is also undertaking its own prospecting activities in various pilot blocks. These are: Pepe Núñez Block, Cuchilla del Queguay Block, Clara Block, Cañada de los Burros Block.

\(^{14}\)Source: [http://www.rondauruguay.gub.uy](http://www.rondauruguay.gub.uy)
6.2. Offshore exploration

Offshore, in Uruguay, is the Punta del Este Basin, the southernmost portion of the Pelotas Basin and the Eastern River Plate Basin. Currently, Uruguay's territorial waters cover a surface area of 200 miles, but in negotiations held with the United Nations (UN), plans to extend it to 350 miles have been considered. Final approval by the UN is expected in February 2015.

Uruguay's offshore database consisted of 2D seismic information owned by ANCAP from the 70s and 80s and information on the only 2 offshore wells, dating from 1976. Data acquired under multiclient agreements in 2002 with CGG was the only recent information available.

After nearly 30 years of very limited exploration activity in Uruguay, an effort was made to reach a comprehensive understanding of all the Uruguayan's offshore basins. ANCAP hired the services of Wavefield-Inseis ASA who conducted a regional 2D seismic survey of 7,000 Km (2007), which was complemented with a 2D seismic survey at semi detailed scale of 2,800 km (2008), in the Punta del Este Basin. This new seismic data, fulfilled with the objective of "removing the veil" of geological and geophysical uncertainty and lack of information of one of the sedimentary provinces of frontier exploration with the greatest potential in the southwestern Atlantic.

Uruguay Round I (2009)

Based on this new seismic data and on the interest aroused in the industry Uruguay Round 2009 was organized. It consisted in a call to stakeholders for the award of Hydrocarbon Exploration and Exploitation agreements in areas of the Uruguayan continental shelf.

It was launched 1 December 2008 in Montevideo. The bid opening was held on 1 July 2009 and only previously qualified companies could submit a bid. According to their technical, economic and legal background, six oil companies qualified, 3 of which finally placed bids.

Of the 11 tendered blocks, 2 were awarded to a consortium formed by Argentine company YPF, Brazilian company...
Opportunities for hydrocarbon exploration

PERTROBRAS and Portuguese company GALP. Subsequently, the Anglo-Dutch company Shell bought out PETROBRAS interest in these blocks.

The stipulated exploratory period in the agreement is 8 years, divided in 3 sub-periods with incremental exploration commitments. Work programs proposed by operators include:

» loading, quality control and reprocessing of 2D seismic data acquired from CGGVeritas
» AVO processing application
» 2D simultaneous inversion process application
» depth migration
» geological and geophysical interpretation
» plays, leads and prospects identification
» drawing up of a 3D model of the entire basin with the horizons in depth as well as with all the data available to define facies maps and bedrock.
» Evaluation of prospects and leads analyzing geological risks as well as the potential resource volume.

Subject to the result of these studies, 2D and 3D seismic will be undertaken to densify prospect information and the wells will be designed. An initial investment at this early stage is estimated at between US$ 10 and 20 million.

The objectives for Uruguay Round 2009 have been fulfilled and it was considered a success at government and international level, as expressed by consulting firms and foreign media specializing in the exploration and production of hydrocarbons. Despite international difficulties for investment in new hydrocarbon exploration areas, 3 important players of the Atlantic Basin placed bids on 2 blocks in the Punta de Este Basin. It was considered a milestone as it implies reactivating exploration after over 35 years of inactivity.

Uruguay Round II (2011)

After the success of Uruguay Round 2009, the decision to launch a new international call for tenders was made.

The available information was complemented with 2D seismic data for 6,300 Km, exclusive property of ANCAP, surveyed in April and May 2011 by Reflect Geophysical.

For Uruguay Round II, launched in September 2011, 15 blocks of the continental shelf were offered.

According to pre-established standards, 11 international oil companies qualified to submit bids. Finally, 19 bids were placed by 9 of these companies. In total, 8 blocks received bids with competition in 5 of these.

In the end, 8 areas were awarded, 3 to British Petroleum (BP), 3 to British Gas (BG), 1 to the French company Total and 1 to the Irish Tullow Oil. The latter then formed a consortium with Inpex (Japan).

In October 2012, ANCAP signed the exploration and exploitation contracts with the awarded companies (see the general characteristics of the contracts in section 3).

Companies agreed to an exploratory program between 2013 and 2015 for an approximate amount of US$ 1,562 million. Among the activities involved are:
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A deepwater exploratory well.

33,240 Km² of 3D seismic (one third of the entire offshore continental shelf).

3,000 Km of 2D seismic.

13,080 Km² of electromagnetism.

130 samples of seabed.

Additional geological studies.

Seismic processing (AVO, depth migration and trace inversion).

Thus, in relative terms (US$ compromised per block offered), Uruguay Round II cannot be internationally compared because it is unprecedented. Uruguay Round II was a success, both in terms of exploration commitment as well as the level of companies involved. This is the perception not only of the authorities involved in the process, but also the international players in the sector.

**Uruguay Round 3**

Given the success of previous rounds, by ANCAP proposal, the Executive Branch decided to hold a new round which will soon be launched in Uruguay.¹⁶

![Picture No. 3 - Areas with offshore exploration contracts in force.](image)

This way, the awarding system through rounds will become consolidated, information on the Uruguayan seabed will continue to be generated and advantage of the multi-client agreement mechanism will be taken. The characteristics of the Round 3 (date, size and number of blocks, offering contracts to bidders, etc.), is being studied.

**6.3 Multi-client agreements**

The recent development of prospecting and exploration, both onshore and offshore provides the opportunity for many partnered service companies to participate in these activities.

Whether through agreements signed with ANCAP or oil companies which have been awarded exploration blocks, various international companies develop different studies (seismic, electromagnetism, other geological studies) that they afterward offer to different players.

The multi-client modality of many of these contracts expands the available information, without incurring costs by ANCAP.

¹⁶ The launch of the round is estimated for late 2014 or early 2015.
7. Main companies in the sector

In this new stage of hydrocarbon exploration, major international oil companies engage in different activities in the sector. The most relevant are listed hereunder.

**Oil companies**

- **Uruguay's State company** responsible for executing all activities in the hydrocarbon industry and sector regulating body.
  
  [ancap.com.uy](http://www.ancap.com.uy)

- **ARGENTINE COMPANY** with onshore and offshore prospecting and exploration activities; it currently operates the consortium also composed of Shell and Galp in block 3 of the Uruguayan continental shelf, awarded as part of Uruguay Round 2009.
  
  [ypf.com](http://www.ypf.com)

- **PORTUGUESE COMPANY** that currently participates in the consortium which has been awarded the exploration and exploitation agreement of block 1 granted in the framework of Uruguay Round 2009.
  
  [galpenergia.com](http://www.galpenergia.com)

- **The Anglo-Dutch multinational company** acquired in 2013 PETROBRAS interest in the exploration of 2 blocks of the Uruguayan continental shelf (currently, it only participates in area 3, upon the return of block 4 in 2014).
  
  [shell.com](http://www.shell.com)

- **This French power company** is currently executing onshore and offshore exploration agreements, operating in one block of the Uruguayan continental shelf, awarded in the context of Uruguay Round II.
  
  [total.com](http://www.total.com)

- **This British multinational company** has been awarded 3 exploration blocks of Uruguay Round II.
  
  [bp.com](http://www.bp.com)

- **This British multinational company** has been awarded other 3 exploration blocks of Uruguay Round II.
  
  [bg-group.com](http://www.bg-group.com)

- **The British company** engaged in oil and natural gas exploration activities has been awarded block 1 in Uruguay Round II.
  
  [tullowoil.com](http://www.tullowoil.com)

- **The Japanese oil company** acquired 30% of interest in the exploration block awarded to Tullow Oil.
  
  [inpe.co.jp](http://www.inpe.co.jp)

- **The exploration company** based in Texas, United States, is currently executing 2 onshore exploration contracts in northern Uruguay.
  
  [schuepbachenergy.com](http://www.schuepbachenergy.com)
Opportunities for hydrocarbon exploration

Service companies

CGG
The geophysical service company associated to the oil industry with headquarters in France has conducted various 2D seismic studies acquired by ANCAP in 2002, 2007 and 2008 which served as a basis for Uruguay Round 2009. It is currently executing various multi-client agreements through affiliated companies.

www.cgg.com

Spectrum
The Norwegian company Spectrum ASA, producer and seller of seismic data for the oil industry, also conducted surveys that were used as input for Uruguay Round. At present it is conducting 2D seismic survey in the multi-client mode.

www.spectrumasa.com

wavefield
The Norwegian company, affiliate of CGG, has also conducted seismic studies whose processed data was available for Ronda 2009.

PGS
The Norwegian company Petroleum Geo-Services ASA is undertaking 3D seismic survey in a multi-client mode.

www.pgs.com

ion
The geophysical services company, with headquarters in United States is conducting 2D seismic survey in the Uruguayan continental shelf in a multi-client mode.

www.iongeo.com

Robertson
CGG affiliate, it prepared a report on oil geology in Uruguay available in multi-client mode.

www.robertson-cgg.com

Fluid Inclusion Technologies
The U.S. company Fluid Inclusion Technologies conducted a study on Stratigraphic Analysis of Fluid Inclusions in samples of the Uruguay's offshore wells performed by Chevron in 1976, in a multi-client agreement signed with ANCAP.

www.fittulsa.com

emgs
The Norwegian company ElectroMagneticGeoServices ASA will conduct a controlled source electromagnetic survey (CSEM) through a multi-client agreement.

www.emgs.com

Geoex International
Geoex International, a geophysics and geological services company, will execute an agreement on a multi-client mode basis for conducting 3D seismic survey in the Uruguayan continental shelf.

www.geoex-international.com

TGS
TGS, of Norwegian origin, will complete 2 multi-client mode agreements: one 2D off shore seismic survey and another for well log processing (onshore and offshore).

www.tgs.com
Opportunities for hydrocarbon exploration

The U.S. company is negotiating with ANCAP the undertaking of 2D onshore seismic survey in the multi-client agreement modality.

www.geokinetics.com

The marine exploration geophysics company based in Dubai conducted 3D seismic survey in the blocks awarded to the BG group.

www.polarcus.com

The company owned by the multinational provider of services related to oil and gas, Schlumberger Ltd., is conducting 3D seismic survey for Total and YPF.

www.slb.com

Leading maritime business group in port and logistics services in Uruguay rendering offshore specific services.

www.schandy.com

Offers services related to Marine agency, vessels and engages in oil business.

www.proaoffshore.com
8. Challenges for the sector:

The development of prospection and exploration activities create growing challenges for Uruguay.

2D and 3D seismic survey, electromagnetic, seabed sample and seismic processing activities are currently being conducted. These activities required the training of local stakeholders which was made possible by the emergence of numerous international service companies associated to hydrocarbon exploration (see section 7).

At the same time, other scientific activities ensuring exploration are performed in an environmentally friendly way. This allowed numerous national scientists to be trained and the generation of new data, especially in disciplines related to marine biology. An example thereof is the presence of Marine Mammal Observers in seismic surveys, who monitor and advise on mitigation measures upon the approach of these species.

As progress is made in the different stages of the agreements, the exploratory commitments become more demanding and the challenges are greater.

Under Uruguay Round 2 agreement, Total undertook to drill a deepwater well in 2015. This exploratory effort involves an estimated investment of US$ 200 million, including great challenges in technology, infrastructure and logistics.

The inputs required to perform the well are not available in the national industry and should be imported. In this regard, Total in mid-2014 had already negotiated 50% of the inputs it has to bring to Uruguay.

However, the drilling of a single well does not provide the sufficient scale for the development of the national industry associated with this activity. As progress is made in exploration, the industry should take advantage of this opportunity to develop the provision of inputs for this activity.

Challenges in terms of logistics will also be significant. The drilling of the well is expected to require the hiring of between 30 and 40 oil service companies, among which there will be one or two of logistics services, in this opportunity, mostly foreign. As new wells are developed, there will be opportunities for logistics services to be undertaken by national companies.

Logistics services will create the need to have adequate port infrastructure. In the planning of the well to be performed in 2015, ANCAP considered all the available options and decided the port of Montevideo would suit as logistics base for the project. Arrangements with the National Port Authority (ANP) are currently taking place to prepare the port of Montevideo for the planned activities.

Furthermore, the eventual discovery of commercially exploitable deposits would open the opportunity for the development of an industrial chain in the field of hydrocarbons.17

Although ANCAP’s outreach and promotion activities (together with the success of Rondas Uruguay) already place Uruguay on the map of the leading international stakeholders in the sector, efforts should be made to keep it within the portfolio of exploratory options with probability of success.

In the framework of Uruguay Round 3, road shows and data rooms will be held in the major oil and gas world capitals. Rounds have already been promoted in various international events and fairs. ANCAP experts attended NAPE Expo in Houston, APPEX in London, AAPG annual exhibition in Houston and the 21st WPC in Moscow. There are also plans to attend the

17 In this regard, the establishment of a Sector Council for Hydrocarbons in the Production Office is projected, composed of academia, business people, workers and government, allowing for the design of a strategic plan for the development of this sector. Within the existing Sector Councils, the metallurgical and naval sectors bear great potential for insertion in a future oil industry. Visit www.gp.gub.uy
Opportunities for hydrocarbon exploration

EAGE annual exhibition in Amsterdam and the AAPG International in Istanbul, among others during the second half of 2014.

In sum, the activities developed so far under onshore and offshore exploration have helped position the country in this industry. In addition they will achieve new stages in the development of national capabilities, leveraging the relationship with international industry experts. As progress is made in new exploratory stages, the training of human resources should continue.

Progress in technology and improvements on logistics capabilities and infrastructure should be made, along with the development of a new institutional and regulatory framework are the challenges facing the country in the coming years.
Opportunities for hydrocarbon exploration

Uruguay at a glance (2013)

<table>
<thead>
<tr>
<th>Official name</th>
<th>Oriental Republic of Uruguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic location</td>
<td>South America, bordering Argentina and Brazil</td>
</tr>
<tr>
<td>Capital city</td>
<td>Montevideo</td>
</tr>
<tr>
<td>Area</td>
<td>176,215 km². 95% of the territory is productive soil, suitable for agriculture and cattle breeding.</td>
</tr>
<tr>
<td>Population (2013)</td>
<td>3.39 million</td>
</tr>
<tr>
<td>Population growth rate (2011)</td>
<td>0.40% (annually)</td>
</tr>
<tr>
<td>GDP per capita (2013)</td>
<td>US$ 16,421</td>
</tr>
<tr>
<td>Currency</td>
<td>Uruguayan peso ($)</td>
</tr>
<tr>
<td>Literacy rate</td>
<td>98%</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>76 years</td>
</tr>
<tr>
<td>Form of state governance</td>
<td>Democratic republic with presidential system</td>
</tr>
<tr>
<td>Political division</td>
<td>19 departments</td>
</tr>
<tr>
<td>Time zone</td>
<td>GMT - 03:00</td>
</tr>
<tr>
<td>Official language</td>
<td>Spanish</td>
</tr>
</tbody>
</table>

Main economic indicators 2008-2013

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (Var % per year)</td>
<td>7.2%</td>
<td>2.4%</td>
<td>8.4%</td>
<td>7.3%</td>
<td>3.7%</td>
<td>4.4%</td>
</tr>
<tr>
<td>GDP (Millions of U$)</td>
<td>30,367</td>
<td>30,461</td>
<td>38,882</td>
<td>47,237</td>
<td>50,004</td>
<td>55,708</td>
</tr>
<tr>
<td>Population (Millions of people)</td>
<td>3.33</td>
<td>3.34</td>
<td>3.36</td>
<td>3.37</td>
<td>3.38</td>
<td>3.39</td>
</tr>
<tr>
<td>GDP per Capita (U$)</td>
<td>9,108</td>
<td>9,107</td>
<td>11,584</td>
<td>14,017</td>
<td>14,792</td>
<td>16,421</td>
</tr>
<tr>
<td>Unemployment rate – Annual Average (% EAP)</td>
<td>8.0%</td>
<td>7.7%</td>
<td>7.2%</td>
<td>6.3%</td>
<td>6.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Exchange rate (Pesos per US$, Annual Average)</td>
<td>20.9</td>
<td>22.6</td>
<td>20.1</td>
<td>19.3</td>
<td>20.3</td>
<td>20.5</td>
</tr>
<tr>
<td>Exchange rate variation (Annual Average)</td>
<td>-10.7%</td>
<td>7.7%</td>
<td>-11.1%</td>
<td>-3.7%</td>
<td>5.2%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Consumer Prices (Var. % annually accumulated)</td>
<td>9.2%</td>
<td>5.9%</td>
<td>6.9%</td>
<td>8.6%</td>
<td>7.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Exports of goods and services (Millions of U$)</td>
<td>9,372</td>
<td>8,711</td>
<td>10,719</td>
<td>12,868</td>
<td>13,398</td>
<td>13,603</td>
</tr>
<tr>
<td>Exports of goods and services (Millions of U$)</td>
<td>10,333</td>
<td>8,191</td>
<td>10,089</td>
<td>12,779</td>
<td>14,685</td>
<td>14,964</td>
</tr>
<tr>
<td>Trade Surplus / Deficit (Millions of U$)</td>
<td>-961</td>
<td>521</td>
<td>630</td>
<td>89</td>
<td>-1,287</td>
<td>-1,361</td>
</tr>
<tr>
<td>Trade Surplus / Deficit (% of GDP)</td>
<td>-3.2%</td>
<td>1.7%</td>
<td>1.6%</td>
<td>0.2%</td>
<td>-2.6%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Overall Fiscal Balance (% of GDP)</td>
<td>-1.6%</td>
<td>-1.7%</td>
<td>-1.1%</td>
<td>-0.9%</td>
<td>-2.8%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Gross capital formation (% of GDP)</td>
<td>23.2%</td>
<td>20.1%</td>
<td>18.9%</td>
<td>21.1%</td>
<td>23.6%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Gross Debt (% of GDP)</td>
<td>58.3%</td>
<td>75.4%</td>
<td>61.4%</td>
<td>57.2%</td>
<td>62.3%</td>
<td>59.5%</td>
</tr>
<tr>
<td>Foreign Direct Investment (Millions of U$)</td>
<td>2,106</td>
<td>1,529</td>
<td>2,289</td>
<td>2,504</td>
<td>2,687</td>
<td>2,796</td>
</tr>
<tr>
<td>Foreign Direct Investment (% of GDP)</td>
<td>6.9%</td>
<td>5.0%</td>
<td>5.9%</td>
<td>5.3%</td>
<td>5.4%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Sources: GDP data were taken from the IMF, foreign trade data from IED, foreign exchange rates, international reserves, and foreign debt come from the BCU, the population growth rate, literacy, unemployment and inflation come from the Statistics National Bureau.
Annex I – Environmental Regulations

The existing national environmental regulations are the following:

**General regulation**

- Law No. 17,283/00 - General Law for Environmental Protection.
- Law No. 17234/00 - National System of Protected Areas (SNAP).
- Law No. 16408/93 - Convention on Biological Diversity.
- Law No. 17849/004 - Law on Packaging.
- Law No. 19012/012 - Contingency Plan.
- Decree No. 349/005 - Environmental Impact and Environmental Authorization Regulations.
- Decree No. 178/009, amending Decree No. 349/005.
- Decree No. 416/013, amending Decree No. 349/005.
- Decree Law No. 14,859/78 and subsequent amendments (Law No. 15,903/87) – Water Code.
- Decree No. 182/013 – Regulates the management of industrial solid waste and similar.
- Decree No. 52/005 – Regulates the Law for the National System of Protected Areas.
- Decree No. 373/003 – Battery Management Guidelines.

**Specific regulation**

- Law No. 16,246/92 - Law on Ports.
- Law No. 14,780/78 – Uruguay IMO member.
- Law No. 15,955/88 – Amendments to MARPOL 73/78 (1985).
- Law No, 16,226/91 – About fines on account of marine, river and port offenses, including oil spills.
- Law No. 16,521/94 – International Cooperation Agreement on Oil Pollution Preparedness and Response (OPRC/90).
- Law No. 16,688/94 – Prevention and Surveillance Regime on possible pollution of territorial waters caused by vessels, aircrafts and naval equipment.
- Decree No. 16,820/97:
  - International Convention on Civil Liability for Oil Pollution Damage (CLC, 1969, and 1992 Protocol), IMO.
- Law No. 17,121/99 – The Navy is responsible through the National Coast Guard for the coordination and control of the assistance and rescue activity of vessels, naval crafts or property in distress or wrecks in national territorial waters or ports of the Republic of Uruguay.
Opportunities for hydrocarbon exploration

» Law No. 17,220/99 – The introduction in any form or under any regime in areas under national jurisdiction of any type of hazardous waste is prohibited.
» Law No. 13,833/69 – Riches of the sea.
» Law No. 19,128/013 – Declares Uruguayan territorial waters as a sanctuary for whales and dolphins.
» Law No. 17,590/02 – Protocol on hazardous and noxious substances pollution, preparedness and response to pollution incidents.
» Decree No. 100/991 – Regulation of Use of Aquatic, Coastal and Port Areas.
» Decree No. 260/997 – Declaration of the lakeside and multi purpose area comprising the José Ignacio, Garzón and Rocha Lagoons and the public area of the dunes projected between the promenade and the sea from José Ignacio lagoon to Rocha lagoon as National Park.
» Decree No. 103/995 – Creation of the National Emergency System.
» "Coordination Agreement" between the National Coast Guard of Argentina and Uruguay to implement the said Convention and reconcile Contingency Plans.
» Maritime Regulation No. 80/2000 – Regulations for the prevention of marine pollution by dumping of waste from ships.

Source: http://www.rondauruguay.gub.uy/