LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

March 3, 2017

FEATURED Q&A

How Will the White House Affect North American Energy?

The administration of President Donald Trump, as well as members of the Republican-led Congress, have recently proposed major changes to U.S. corporate tax policy, which have the potential to affect North American energy companies. // File Photo: White House.

Q Plans in the Trump administration and Republican-led Congress for a major overhaul to U.S. corporate tax policy, which may include new import tariffs and border-adjustment taxes, have energy companies near and far wondering how the proposed revisions would affect their businesses. What are the most important aspects of potential U.S. tax policy changes for Western Hemisphere energy companies? Which energy players have most to win, and most to lose, from the tax and trade policy changes proposed by the United States thus far?

A R. Kirk Sherr, member of the Energy Advisor board and president of Clearview Strategy Group: "While overall U.S. trade with Mexico is at a significant deficit, the United States enjoys a surplus exceeding $11 billion in our energy trade. Natural gas export growth has been phenomenal, having doubled from 2009 to 2016 to well over 4 billion cubic feet per day, with similar export growth lying ahead, based on new pipelines and natural gas power plants in Mexico. If U.S. import taxes lead to Mexican retaliation on U.S. energy exports, U.S. natural gas producers would have lots to lose. Ripple effects from a drop in natural gas exports would be felt all the way up to Pennsylvania. In fact, some analysts forecast a price drop to $2 per one million British thermal units for natural gas in the United States (vs. about $3 today) in a Mexican import tax scenario. Both Texas and Oklahoma rely on gas exports to Mexico for easy offtake of much of their production, since the Northeast market is no longer available. Winners in any protracted battle over U.S. natural gas exports to Mexico would likely be some combination

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Chile Increases Liquefied Natural Gas Imports

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World Bank Approves $48 Mn Guarantee for RenovAr

The World Bank will support the Fund for the Development of Renewable Energies, which finances projects under the RenovAr program.

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OIL & GAS

YPF, Shell Close $300 Mn Deal for Argentine Project

The joint venture, signed by YPF CEO Miguel Gutiérrez and Shell Argentina president Teófilo Lacroze, will be split evenly between the two companies. If the venture is approved, the project could become a full-field development.

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Gutiérrez // File Photo: YPF.

OIL & GAS SECTOR NEWS

YPF, Shell Close $300 Mn Deal for Argentine Project

Argentine state-run oil and gas company YPF closed a preliminary $300 million deal with Royal Dutch Shell to co-develop a new pilot project in Bajada del Añelo in the Vaca Muerta shale formation, Kallanish Energy reported Tuesday. The joint venture will be split evenly between the two companies, and the exploration plans are still awaiting regulatory approval from Neuquén province. If approved, the project could become a full-field development. The Bajada del Añelo is approximately 78.76 square miles and contains both shale oil and shale gas. The area is located northwest of the Loma Campana field, which is the flagship development at Vaca Muerta. YPF CEO Miguel Gutiérrez said the new deal would utilize the agreements that Argentina made with Neuquén province and labor unions. Shell Argentina president Teófilo Lacroze and Gutiérrez signed the agreement in Buenos Aires. "It is a pleasure to partner with Shell, a company with extensive experience in developing shale oil and gas in North America," Gutiérrez said last week. On Feb. 23, YPF also signed a definitive agreement with PetroUruguay, a subsidiary of Uruguayan oil company ANCAP, to acquire a 20 percent stake in the Aguada de la Arena area, also in Neuquén province, for $18 million. Under an agreement announced last month to attract investment, Argentina guaranteed a subsidized natural gas price for production from new wells of $7.50 per million British thermal units through 2020, while labor unions signed on to more flexible contracts, according to Reuters. Industry executives said the agreement will cut down on drilling costs and make the country's oil and gas sector more competitive internationally. [Editor's note: See related **Q&A** in the Jan. 27 issue of the Energy Advisor.]

Executives say the agreement will cut down on drilling costs and will increase competitiveness.

Chile Increases Liquefied Natural Gas Imports

Chile imported three times more liquefied natural gas in December as compared to the same month a year earlier, caused by limited supplies of hydroelectricity, Platts reported Monday. The country imported 263,000 metric tons of LNG in December, a significant increase also from the 171,000 metric tons it imported in November. The spike in imports led to a 80.6 percent fourth-quarter increase in imports to 716,000 metric tons and an annual increase of 31.8 percent to 4.165 million metric tons last year. Trinidad and Tobago supplied the majority of Chile's LNG last year, exporting 206,000 metric tons in December to the South American country. Chile also imported 57,000 metric tons from the United States in December, its first LNG imports from the United States since September. Chile also resumed exports of natural gas to Argentina, sending 70,000 metric tons during December for the first time since August. Chile began pumping gas over the Andes mountains, which separate the two countries, in May under an agreement between Chilean state energy company ENAP and Argentine state energy company ENARSA.

Pemex Reports Smaller Loss for Q4

Mexican state-run oil company Pemex on Monday reported a smaller year-over-year loss in the fourth quarter, due mainly to higher crude prices, Reuters reported. The loss of $1.58 billion was much less than the $9.8 billion loss during the same time period a year earlier. "Pemex's finances are today stable with positive trends; however, we believe there is certainly room for improvement," said Chief Financial Officer Juan Pablo Newman. Revenue rose more

NEWS BRIEFS

Total, Petrobras Announce $2.25 Bn Joint Venture

French energy company Total and Brazilian state energy company Petrobras on Wednesday announced they would enter into a $2.25 billion joint venture agreement in oil field developments, UPI reported. Total's payments to Petrobras will include $1.6 billion in cash, as well as technological cooperation. Petrobras in return will give Total enough stake in some of its more lucrative fields to make the French company a minority partner.

Hydroelectric Plants Prepared for Costa Rica's Energy Needs: ICE

The state-run Costa Rican Electricity Institute, or ICE, says that despite recent hotter-than-normal temperatures during the dry season, the country's hydroelectric plants will still be able to support the country's energy needs, The Tico Times reported Sunday. Water levels at all five of the country's main hydroelectric plants have remained stable, thanks to ICE's advanced storage of water before the dry season. Power companies have only had to use thermal plants for backup generation, meaning that electricity tariffs will likely remain stable. An increased reliance on thermal plants is one of the main reasons ICE and other energy companies ask for higher tariffs during this time of year.

World Bank Approves $48 Mn Guarantee for Argentina's RenovAr

The World Bank has approved a 20-year $480 million guarantee for Argentina's renewable energy plan, known as RenovAr, PV-Tech reported Thursday. The World Bank will support the Fund for the Development of Renewable Energies, known as FODER. The aim of FODER is to finance projects under the RenovAr program, through wind, solar, biomass, biogas and small hydroelectric projects.

than 20 percent to $15.7 billion, and the price of Mexico's crude oil export mix increased by 22 percent during the quarter to nearly $41 per barrel on average. Pemex's crude output has steadily declined from a peak of 3.4 million barrels per day in 2004. The government predicts an output average of 1.94 million barrels per day this year and between 1.9 million and 2 million barrels per day next year. The company has not posted a quarterly profit since 2012.

RENEWABLES NEWS

Actis Launches Latin American Solar Generation Platform

Leading growth markets investor Actis on Wednesday announced a $525 million commitment to creating a Pan-Latin American renewable energy platform, to be called Atlas Renewable Energy, with the plan of targeting more than 1,500 megawatts of installed capacity across the region. On Wednesday,

The platform will both partner on projects as well as develop a proprietary line of solar PV projects.

Actis completed the acquisition of more than 1,500 MW of solar photovoltaic assets from SunEdison throughout Latin America, including 578 MW of contracted projects that are in the operation, construction or advanced development stages, as well as another 1,000 MW worth of projects in the early stages of development. The projects, once completed, are expected to generate enough energy for 350,000 households. Atlas' growth strategy is to partner in new projects as well as develop its own proprietary line, which will focus on solar PV projects. The main targets for the company are Brazil, Mexico, Uruguay and Chile. Atlas is Actis' fifth power generation platform in Latin America. The growth markets investor has also made recent investments in Mexico, Brazil, Chile and Central America.

Brookfield Close to Purchasing Stake in Brazil's Renova

Canada-based Brookfield Asset Management is close to a deal to buy a 30 percent stake in Brazil's Renova Energia, Reuters reported Wednesday, citing a person directly involved in the transaction. The agreement could be announced within weeks and would involve Brookfield purchasing the 15.7 percent stake that Light Energia has in Renova and also putting 800 million reais ($258 million) of new cash into the company, the source told the wire service. Light Energia is part of a group that controls approximately 64 percent of Renova. Brookfield would formalize the transaction after Renova completes the sale of its Alto Sertão II wind farm to a unit of AES Corp. That sale is expected to occur next week. Renova Energia struggled last year with a scarcity of cash, and Renova's injection of capital will allow Light Energia to shed its stake while also diluting the stake of the two other controlling members of Renova, Cia. Energética de Minas Gerais and RR Participações. The deal should help put Renova "back in the game," the source told Reuters. Brookfield, Renova, Light Energia, Cia. Energética de Minas Gerais and RR Participações all had no immediate comment.

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of renewable energy power plants in Mexico, older fuel-oil plants whose life would be extended, along with energy efficiency projects and Mexican natural gas production in the medium term. Integration of North American energy markets, particularly with regard to natural gas, has been one of the biggest success stories in the industry in recent years. Significant energy tax policy changes by either Mexico or the United States would be a huge step back and would likely throw United States-Mexico energy integration efforts into disarray for years."

A **David Shields, independent energy consultant based in Mexico City and editor of Energía a Debate:** "The global oil industry awaits clarity on Donald Trump's proposed fiscal stimulus, energy deregulation and renegotiation of global trade deals. Uncertainty prevails on what the effects could be, especially for Mexico, which has been subject to hostile jibes from Trump and is now a major energy importer and highly dependent on gasoline, natural gas and liquefied petroleum gas from the United States. However, Trump could well refrain from interfering in the energy business, precisely because the United States now has a big surplus in energy trade with Mexico, not a deficit, as in the case of the automobile and assembly-plant industries. There is no sense that Mexico takes U.S. jobs away

"If U.S. import taxes lead to Mexican retaliation on U.S. energy exports, U.S. natural gas producers would have lots to lose."

— R. Kirk Sherr

in energy. On the contrary, Mexico has long been a reliable supplier of crude oil to the U.S. market and now provides big business that props up the U.S. refining and pipeline industries. Mexico cannot be just business as usual and indifferent to risk in the current uncertainty. It has already diversified its crude oil exports away from the Gulf Coast—which is well supplied by U.S. frackers—and toward European and Asian markets, which now take half of its total oil exports. It might well consider doing the same in gasoline, buying more from a very liquid global market

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ECONOMIC NEWS

Venezuela's Foreign Reserves Dwindle to $10.5 Billion

Venezuela's amount of foreign reserves has fallen to just $10.5 billion, CNN reported Wednesday, citing the country's most recent central bank data. In 2011, the country had about $30 billion in reserves, and that total fell to $20 billion by 2015. For this year, the economically embattled country owes about $7.2 billion in debt payments. "The question is: Where is the floor?" Siobhan Morden, the head of Latin America fixed income strategy at Nomura Holdings told CNN. "If oil prices stagnate and foreign reserves reach zero, then the clock is going to start on a default." Of its $10.5 billion in remaining reserves, about $7.7 billion is in gold. The government last year shipped some of its gold to Switzerland in order to make debt payments. Venezuela is suffering from several economic problems including shortages of food and medicine as well as inflation that the International Monetary Fund estimates will reach 1,660 percent this year and 2,880 percent next year. The fall in the past few years in the price of oil, Venezuela's chief export, has exacerbated the country's economic problems. Oil prices have fallen by about half since 2014. The South American country has the world's largest oil reserves, and shipments of the commodity make up more than 90 percent of its total exports. Venezuela's exports have fallen by half since a year ago, according to research firm Analytica.

> **"If oil prices stagnate and foreign reserves reach zero, then the clock is going to start on a default."**
> — Siobhan Morden

ADVISOR Q&A

Will a Harder U.S. Line on Venezuela Lead to Change?

Q **The Trump administration has taken a harder stance on Venezuela than some analysts expected from a president who has not prioritized international human rights causes. Last month, President Donald Trump met with the wife of jailed opposition leader Leopoldo López, and he has conferred with the presidents of Peru and Argentina over what to do about Venezuela's political impasse and economic calamity. Meanwhile, the State Department has sanctioned senior Venezuelan officials over drug trafficking accusations. Are Trump's actions on Venezuela a rejection of the "dialogue" initiated by the State Department with Venezuela under the Obama administration? Will a harder line from the United States weaken the Maduro regime, or further entrench its supporters? How much international cooperation can be expected from Latin American leaders with the United States on a solution to Venezuela's worsening humanitarian crisis?**

A **Gustavo Roosen, member of the Advisor board and president of IESA in Caracas:** "President Trump's proactivity is welcome. It is the only way to move the government from its comfortable position. Venezuela's executive branch, which has overpowered the other branches of government, mocked the opposition and international mediators throughout 2016. The Vatican and other parties involved in the dialogue were aiming at a constitutional solution to the country's chaotic situation. The United States has participated indirectly in the dialogue through Thomas Shannon, who must have been acquainted with the Treasury's investigations concerning top-ranking Venezuelans. His role, however, was to support Barack Obama's policy to back the Colombian peace process as well as the United States' rapprochement with Cuba. The Obama government felt that it should not create difficulties in Venezuela, which was useful in achieving its other objectives. In turn, the Trump administration has put at the forefront the dramatic humanitarian crisis and the growing number of political prisoners in Venezuela to promote a democratic solution for the country's woes. Other presidents in Latin America have joined Trump in this endeavor. Sadly, Colombian President Juan Manuel Santos has taken a regrettable position on the Venezuelan crisis. The solution for Venezuela's serious circumstances must be consensual and far-reaching. For this reason, dialogue is necessary. Recently, Spain's government supported former Prime Minister Zapatero's efforts in the dialogue. Current Spanish Prime Minister Mariano Rajoy, in his last article in El País, was clear on how the Venezuelan regime has been moving away from democracy. Only international pressure and a stronger opposition can lead Venezuela to a democratic and electoral solution in 2017."

> **"President Trump's proactivity is welcome. It is the only way to move the government from its comfortable position."**
> — Gustavo Roosen

EDITOR'S NOTE: More commentary on this topic appeared in Thursday's issue of the daily Latin America Advisor.

NEWS BRIEFS

Homicide Rate Decreases in El Salvador

Homicides in El Salvador have decreased significantly so far this year, the government said Wednesday, the Associated Press reported. The country had previously reported some of the highest murder rates in the world in recent years, due mostly to gang activity. National Police Commissioner Howard Cotto said there were 730 killings in the first two months of the year. Last year, El Salvador recorded 1,404 homicides during the same period. Cotto said a government crackdown and legislation that gave authorities more power to fight gangs, were some of the main factors contributing to the decline in violence.

Argentina Seeks Answers From Brazil on Flights From Falklands

The Argentine government on Wednesday said Britain's Royal Air Force had conducted 18 flights between the disputed Falkland Islands and Brazilian airports over the last two years, which Argentina said was a breach of agreements between Argentina and Brazil, the Associated Press reported. The Argentine foreign ministry said it requested an explanation from the Brazilian government.

White House Eyes Deep Cuts to State Department Budget

The White House is proposing a 37 percent spending cut to the budgets of the State Department and the U.S. Agency for International Development, or USAID, a person familiar with budget negotiations told The Wall Street Journal Tuesday. At the same time, President Donald Trump is eyeing $54 billion in additional defense spending. Both Republican and Democratic lawmakers criticized the proposed diplomatic budget cuts, saying they would be devastating.

Puerto Rico's Governor Announces Economic Plan

Puerto Rico Governor Ricardo Rosselló on Tuesday announced a plan to eliminate subsidies, boost the cost of some services and cut the number of public agencies by nearly 75 percent in an effort to lower spending and increase revenue as mandated by a federal control board, the Associated Press reported. Rosselló, who took office in January as the U.S. territory's governor, said he will not implement layoffs of public employees or impose new taxes. The commonwealth is facing a $7 billion deficit and is attempting to restructure some $70 billion in public debt. "I'm not here to create false expectations," Rosselló said Tuesday. "We have to make big changes here. Puerto Rico cannot bear this any longer." The federal control board, which was established last year, has ordered the commonwealth to boost revenue by $1.5 billion and trim costs by about $3 billion over the next two years. Rosselló has said that time line is not realistic. The governor also rejected some recommendations that the board had made, including a 30 percent reduction in the public payroll, which he said would force 45,000 layoffs. Rosselló refused a recommendation to cut health care costs by $1 billion as well as cut pension system costs.

POLITICAL NEWS

Trump Signals Openness to Immigration Reforms

Hours before his first speech to a joint session of Congress on Tuesday night, U.S. President Donald Trump told television news anchors that "the time is right for an immigration bill as long as there is compromise on both sides," The Washington Post reported. At the meeting, Trump signaled a willingness to address legal status for immigrants who are in the United States illegally but have no other criminal record. Trump added, however, that he would not necessarily support providing citizenship to undocumented immigrants, except perhaps for the nearly two million people who were brought to the United States illegally as children, according to Wolf Blitzer and Jake Tapper of CNN, who attended the private luncheon at the White House. In his speech Tuesday night to Congress, Trump echoed the tough stance on immigration that he used during his campaign. "We want all Americans to succeed, but that can't happen in an environment of lawless chaos," he said. "We must restore integrity and the rule of law at our borders." He repeated his vow to "begin the construction of a great, great wall along our southern border," but he did not repeat his assertion that he will force Mexico to pay for it. Such a wall is estimated to cost more than $20 billion. [Editor's note: See **Q&A** on U.S.-Mexico relations in the Feb. 6 issue of the Advisor.]

> **"We must restore integrity and the rule of law at our borders."**
>
> **— Donald Trump**

Colombia's FARC Rebels to Begin Disarming

The Revolutionary Armed Forces of Colombia, or FARC, rebels began surrendering their weapons Wednesday to the United Nations, three months after they signed a renegotiated peace agreement with the country's government, Reuters reported. Nearly 7,000 rebels have reached 26 designated demobilization areas across Colombia, according to the government and the rebels. "It's the start of the process of disarmament, which involves the registration of weapons, the destruction of unstable weapons and the storage of side arms," Sergio Jaramillo, Colombia's high commissioner for peace, told reporters Tuesday, according to Reuters. By June, the rebels are expected to fully disarm, President Juan Manuel Santos has said.

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with many potential suppliers, rather than mainly from U.S. refiners, just in case Trump might include energy in bilateral trade talks. With bilateral energy trade with Mexico favoring U.S. companies in every way, these companies would be hurt the most, if that trade were to falter."

A **John Price, managing director of Americas Market Intelligence:** "While everyone in U.S. energy supports a lower corporate income tax, only some of the industry is embracing of a border-adjustment tax. U.S. energy producers, be they oil, gas or coal, generally support the border tax, which would enable them to earn tax-free export windfalls as well as fend off imported competitive product, the latter subject to a 20 percent tax. Downstream refiners and chemical companies are less sanguine about a border tax because, with few exceptions, they import greater values of input product than export refined product. In the low-margin fuel refining industry, it will be difficult, if not impossible, to pass through all the cost increase to customers. Producers are further enamored with the Trump administration's plausible promise to loosen regulations, thereby simplifying and cutting costs in their operations. While fracking faces increased regulations in many jurisdictions, Washington promises to unravel regulatory burdens introduced by the Obama administration. The same holds true for coal. For U.S. gas producers, the promise of exports will finally be realized, thanks to the EPA's approval of new LNG export facilities, which will come online in two to three years. LNG-fueled electricity producers and downstream chemical manufacturers resent the higher gas prices that will result from U.S. gas producers selling to high-price markets off-shore. North America has become a highly integrated energy market, with the Americans serving as net-exporters of value-added products, and Canada and Mexico competing as up-stream suppliers. Trump's energy policies and proposed border tax promises to up-end one of the region's largest industries."

> **"Trump's energy policies and proposed border tax promises to up-end one of the region's largest industries."**
> — John Price

The Advisor welcomes comments on its Q&A section. Readers can contact editor Gene Kuleta at **gkuleta@thedialogue.org**.

LATIN AMERICA ENERGY ADVISOR
is published weekly by the Inter-American Dialogue
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Latin America Energy Advisor is published weekly, with the exception of some major U.S. holidays, by the Inter-American Dialogue
1155 15th Street NW, Suite 800
Washington, DC 20005 **Phone:** 202-822-9002
www.thedialogue.org
ISSN 2163-7962

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