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FEATURED Q&A

Will Colombia's Oil Sector See a 'Peace Bump'?



Colombia's oil sector will continue to face security threats as the country negotiates the implementation of its peace agreement with the FARC and works to reach a peace agreement with the ELN, Rich Donohoe and Walter Pesenti write below. // File Photo: Colombian Government.

Q The Revolutionary Armed Forces of Colombia, or FARC, rebels began surrendering their weapons on March 1 to the United Nations, three months after they signed a renegotiated peace agreement with the country's government. In the past, the government has said that the peace process will benefit the country's energy sector. However, other experts have warned that areas of the country that had previously been under FARC control may now be vulnerable to environmental exploitation by illegal groups. Which aspects of Colombia's energy sector are most likely to see a change as disarmament begins? Will Colombia see fewer attacks on its oil sector infrastructure? What challenges remain as Colombia looks to reap the benefits of the peace agreement vis-à-vis the energy sector?

A Rich Donohoe and Walter Pesenti, managing directors, at Berkeley Research Group: "Infrastructure and security issues will continue in Colombia. Its current pipeline network has the capacity to transport about one million barrels per day, while inadequate road and rail systems make ground transportation complicated and expensive. Caquetá and Putumayo departments offer promises of new oil deposits, but lack a connection to the Pacific coast that could feed Chinese demand, which consumes about 26 percent of the country's oil exports. The weak infrastructure is further undermined by continued security concerns. The Coveñas pipeline plays a vital role in exporting oil, but averages one rebel bombing each week, which is unlikely to stop. Attacks on oil infrastructure have dropped since the FARC cease-fire, but the country's second-largest guerrilla group, the National Liberation Army

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TOP NEWS

OIL & GAS

Mexico to Hold Twice-Yearly Oil Auctions

Mexico's oil regulator, the National Hydrocarbons Commission, or CNH, on March 2 said it will organize two annual oil auctions starting next year, as part of wider energy-sector reforms.

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POWER SECTOR

Brazil Launches Program for Infrastructure

Brazilian President Michel Temer on Tuesday launched an infrastructure concessions program to build and operate power transmission lines, as well as roads, port terminals and railways.

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OIL & GAS

Argentina Cuts Drilling Costs, Boosts Efficiencies

YPF Chairman Miguel Gutiérrez said Argentine state-run oil company YPF has cut horizontal drilling costs by more than 50 percent and has decreased the time it takes to complete new wells.

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Gutiérrez // File Photo: Argentine Government.

OIL & GAS SECTOR NEWS

Colombia's Oil Sector Facing Post-Conflict Problems: Minister

Colombia's oil sector is facing "post-conflict" problems as bombings and other security challenges persist after the signing of the peace accord between the Colombian government and the Revolutionary Armed Forces of Colombia, or FARC, rebel group, Orlando Velandia, the president of Colombia's National Hydrocarbons Agency, said on Tuesday, The Wall Street Journal reported. During the more than 50-year conflict between the government and Marxist rebel groups, the oil sector was often caught in the middle of the violence; foreign and local oil executives were kidnapped for ransom, energy companies were extorted and pipelines were bombed. Though kidnappings have for the most part ended and some security issues are improving, the smaller ELN rebel group has continued to attack oil industry infrastructure in the country, according to Velandia. "We have to get rid of the stigma against the oil industry, because there is a radicalization of people fighting the industry," Velandia said. "We must explain to the people that they will not run out of water [due to exploration and production of oil], and they will still be able to raise cattle." The ELN detonated dynamite on Colombia's second-longest pipeline, the Caño Limón-Coveñas, twice in late February, bringing the number of pipeline bombings in the country this year to more than a dozen. Last year there were nearly 50 attacks. [Editor's note: See [Q&A](#) on Colombia's oil sector in the Dec 23, 2016 issue of the Energy Advisor.]

Mexico Seeking Operator for Ayin-Batsil Oil Field

Mexico's oil regulator, the National Hydrocarbons Commission, or CNH, on Monday voted to initiate the process of selecting a partner

for state-owned oil company Pemex to jointly develop its Ayin-Batsil oil field, Reuters reported Monday. The initial bid terms approved by the CNH, led by Juan Carlos Zepeda, say that Pemex will retain a 50 percent stake in the field but will not be the shallow water project's operator. The auction for the remaining 50 percent stake will be held on June 19 and will feature a 30-year production sharing contract for



Zepeda // File Photo: Mexican Government.

pre-qualified oil companies, as well as potential contract extensions for as long as another 10 years. The Ayin-Batsil project has an estimated 281 million barrels in proven, probable and possible reserves, based on past Pemex discoveries, and is located at a depth of 525 feet. The joint venture will be Mexico's second, as it seeks to increase crude output after more than a decade of decline. Pemex's first joint venture is with Australian mining and oil firm BHP Billiton. The state-run oil company selected BHP Billiton in December to operate the Trion deep water block located near the U.S.-Mexico maritime border in the Gulf of Mexico. Pemex holds a 40 percent stake in the operation, and BHP Billiton holds the rest.

Argentina's YPF Cuts Drilling Costs, Improves Efficiencies

Argentine state-run oil company YPF has cut horizontal drilling costs by more than 50 percent and has decreased the time it takes to complete new wells in a bid to attract capital amid low global oil prices, YPF Chairman Miguel Gutiérrez said Monday, Reuters reported. Horizontal drilling costs for the company are \$8 million per well, down from \$17 million,

NEWS BRIEFS

Canadian Solar Receives \$20 Million for Brazil Photovoltaic Projects

Canadian Solar has received \$20 million in unsecured financing from the China and Portuguese-speaking Countries Cooperation and Development fund, or CPDFund, to fund photovoltaic projects in Brazil, ReNews reported Monday. The project is currently under construction and is expected to be completed in the third quarter of this year. The CPDFund was established in 2013 and is co-run by the China Development Bank and the Macau Industrial and Commercial Development Fund.

Mexico's Oil Regulator to Hold Twice-Yearly Oil Auctions

Mexico's oil regulator, the National Hydrocarbons Commission, or CNH, on March 2 said it will organize two annual oil auctions starting next year, Reuters reported. The first auction will be held during the first half of the year and will include shallow water and onshore conventional fields, and the second will take place during the second half of the year, including deep water and shale fields.

Argentina, South Korea Resume Talks on Energy Resources Cooperation

Argentina and South Korea have agreed to strengthen their cooperation in the energy sector after resuming committee-level talks for the first time in nine years, the South Korean trade ministry said Sunday, Yonhap News reported. The two countries agreed during a meeting in Buenos Aires to cooperate on nuclear reactors, renewable energy, energy efficiency, minerals and liquefied natural gas. The two countries' energy ministers discussed the possibility of combining Argentina's access to resources with South Korea's energy-sector technology.

and the time it takes to complete a new well has been reduced to 15 days from 40 days, Gutiérrez said. The streamlined process has cut costs for YPF to less than \$40 per barrel, which the company hopes will help attract capital, something it has struggled to do since global crude prices began to drop in 2014. The Argentine government has in recent years been pushing to attract more foreign investment, especially in its Vaca Muerta shale formation, one of the largest shale deposits in the world. In January, Argentina announced it would change a subsidy program for producers, offering \$7.50 per million British thermal units of natural gas through 2020, a price much higher than that of U.S. natural gas prices. Lack of production in the country has forced Argentina to increase its imports of liquefied natural gas, which Gutiérrez said will continue for “quite a considerable time” in the future, even if the country sees a bump in production as a result of its efforts to attract investment.

POWER SECTOR NEWS

Brazil Launches Program for Energy Infrastructure

Brazilian President Michel Temer on Tuesday launched an infrastructure concessions program that he says will raise 45 billion reais, or about \$14.43 billion, in investment to build and operate power transmission lines, as well as roads, port terminals and railways, Reuters reported. “There will be 45 billion reais in new investment in the energy, transport and sanitation sectors, which will lead to the creation of 200,000 new direct and indirect jobs,” he said, adding the program would be key to lifting the economy out of its worst-ever recession. At the inaugural meeting of the Program for Partnerships and Investments, which will oversee the tendering of the concessions, Temer said he hopes to launch 55 new projects with private-sector partnerships. “We are leaving behind a deep recession and entering a phase of prosperity where private investment will be

decisive,” he said. Official data released Tuesday showed that Brazil’s economy shrank even



Temer // File Photo: Brazilian Government.

further in the final quarter of last year, with a greater-than-expected decline of 0.9 percent

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(ELN), is filling the vacuum. Additionally, criminal groups have quickly stepped into areas that the insurgency abandoned. Similar to the disarmament of the Irish Republican Army through political dialogue with its political arm Sinn Féin, some members of FARC may put down their weapons, but members who are professional smugglers and criminals will simply move to other similar ventures. Expect oil, gas and electric franchises to fall into illegal hands, much like in the Baltics, Balkans and Ukraine. Until a replacement ‘center of local government’ develops that can enforce rule of law in the former FARC-controlled areas, the ELN or local indigenous populations wishing to protect their environmental and societal sovereignty may continue attacks. Although the United Nations can collect weapons and disarm the FARC to a point, expect individual FARC members to keep spare weapons around ‘just in case.’ While pro-business policies and a favorable regulatory system can create a sense that things are easy in Colombia, the reality is very different. Low oil reserves, insufficient and weak infrastructure, persistent security risks and inherent social unrest are the biggest obstacles. In the current oil-sector environment, the positives might not outweigh the risks. Even the government is aware of that, and it recently passed a tax reform aimed at replacing the

in the fourth quarter, down from a 0.7 percent drop in the previous quarter.

Jamaica Ahead of Schedule in Reaching Renewables Goals

Jamaica is ahead of schedule in achieving its goal of having 30 percent of the energy it consumes come from renewable energy sources by the year 2030, said the minister of Science, Energy and Technology, Andrew Wheatley, the Jamaica Information Service reported March 3. He said that currently more than 10 percent of

old incomes from oil with tax revenue. Without the oil, Colombia’s growth will depend on internal consumption and foreign capital.”

A John Padilla, managing director, and Sergio Torres, consultant, at IPD Latin America: “Colombia’s peace agreement with the

FARC has had a positive, though limited, effect on the country’s energy sector.

Terrorist attacks against oil infrastructure in FARC-dominated areas (i.e., southwestern Colombia, along the Ecuadorean border) are down, and should maintain that trend. But the ELN, Colombia’s second-largest guerrilla group, which started peace negotiations with the government in February, has intensified its attacks against the sector. Attacks on the 485-mile Caño Limón-Coveñas pipeline have resulted in increasing levels of shut-in production from the Caño Limón field in 2017. The pipeline transports nearly 10 percent of Colombia’s total oil production. Seventeen attacks have already been perpetrated this year, as compared to 43 total last year.

These attacks have forced Ecopetrol to declare force majeure on Vasconia crude shipments, which leave from the Coveñas Port, since January. Previously, ELN attacks were mostly deployed to extort payments from producing companies; now they are likely aiming to press the government for a bilat-

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the country's electricity comes from renewable sources. "Last year, Jamaica had 13.5 per cent of its electricity to the grid (coming from renewable energy), and that was when we were not at full capacity, as a number of the facilities came on line in the middle of the year." During that period, the country was generating 15.5 percent of its electricity from renewable sources, he said. He said the government is putting together an "integrated resources plan, for which the first draft should be ready in June or July of this year." Wheatley added that the plan will provide a guideline to monitor and manage the country's alternative energy industry.

POLITICAL NEWS

At Least 22 Girls Killed in Fire at Guatemala Shelter

At least 22 girls were killed Wednesday when a fire tore through a home for abused children and teenagers southeast of Guatemala City, Reuters reported. The blaze at the government-run Virgen de Asunción home in the town of San José Pinula began when a group of youths set fire to a mattress following a riot and an escape attempt, according to Nery Ramos, the head of Guatemala's national police force. Ramos added that authorities were probing whether the youths who started the fire were the same ones who had attempted to escape. Photos posted to Twitter showed burnt bodies, partially covered with blankets, strewn across the floor of a blackened room at the home, Reuters reported. In addition to those killed, dozens more were injured, many with second- and third-degree burns, the Associated Press reported. "What happened is extremely serious, and even more so for the fact that it could have been avoided," Guatemalan Solicitor General Anabella Morfin said at a press conference, Reuters reported. "This should never have happened." President Jimmy Morales declared three days of national mourning. "We will fully support the institutions responsible for investigating, and we will contribute to finding the truth," he said in a televised statement

ADVISOR Q&A

Would Budget Cuts Hurt U.S. Interests in Latin America?

Q **The administration of U.S. President Donald Trump reportedly wants to slash funding to the State Department and the U.S. Agency for International Development by 37 percent, while also pouring an additional \$54 billion into the country's defense budget. Both Republican and Democratic lawmakers quickly criticized the cuts, however, saying they would hobble U.S. influence in the world. What would such cuts, and increased defense spending, mean for the United States' role in Latin America and the Caribbean? Should the U.S. military have a larger role, with the State Department taking a smaller role, in the hemisphere? What are the implications for the region if more U.S. foreign policy is conducted through a military and security lens rather than through traditional diplomacy?**

A **U.S. Rep. Eliot L. Engel (D-N.Y.), ranking member of the House Committee on Foreign Affairs:** "Last week, I sent a letter to Secretary of State Rex Tillerson—signed by 103 of my colleagues—urging him to press the White House to reverse these draconian, short-sighted cuts to the Fiscal Year 2018 international affairs budget. I hope the administration quickly changes course and realizes that slashing support for diplomacy and development will only make our country less safe. In recent years, the Obama

administration worked with Republicans and Democrats in Congress to renew the U.S. commitment to Latin America and the Caribbean, including through a bold, new foreign assistance package for Central America. We are now addressing the root causes of child migration from Guatemala, Honduras and El Salvador to the United States in order to stop children from being forced to make the perilous journey from their home countries to the U.S.–Mexico border. Dramatically cutting the State Department and USAID's budgets would make it very difficult to continue to do this, while also emasculating long-standing U.S. commitments to Haiti, Colombia and other key partners. Finally, increasing the military's role in our policy toward Latin America and the Caribbean while reducing international affairs spending would severely undermine the civilian, democratic institutions that we have supported for so many years. I hope Secretary Tillerson is able to convince the White House to reverse course before the FY 2018 budget is released. But if not, I will do everything in my power to work with my colleagues in Congress to ensure that these cuts do not take place."

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

late Wednesday. Mayra Veliz, the secretary general of the attorney general's office, vowed that the investigation will be transparent. During the Tuesday night riot that preceded the fire, dozens of residents fled the home, but 54 were recaptured, according to Ramos of the national police. The Virgen de Asunción home has long been overcrowded, Guatemalan

media reported. More than 500 people were living in the facility, which was designed to hold 400. Heinz Heimann, a presidential spokesman, criticized what he said were open living arrangements at the shelter, which is run by the government's Ministry for Social Welfare. "It shouldn't be possible that girls who simply were suffering, that didn't have any problems

NEWS BRIEFS

Yellow Fever Could Spread From Brazil to U.S.: Health Officials

An outbreak of yellow fever in rural Brazil is causing U.S. officials to worry that the mosquito-borne disease could spread to the United States, much in the same way that Zika did last year, two health experts said in an essay in the *New England Journal of Medicine*, CNN reported Thursday. Though a yellow fever outbreak in the United States is unlikely, "travel-related cases of yellow fever could occur, with brief periods of local transmission in warmer regions such as the Gulf Coast states," said Dr. Anthony Fauci, the director of National Institute of Allergy and Infectious Diseases, and his colleague, Dr. Catharine Paules.

Peru, India to Begin Trade Talks Soon

Negotiations for a trade agreement between Peru and India are set to begin soon, Peru's vice minister of foreign trade, Edgar Vásquez, said, *The Hindu* reported Thursday. The two countries completed a joint feasibility study for the accord in trade of goods, services, investment and cooperation in September, according to industry body the Federation of Indian Chambers of Commerce and Industry. Ashok Das, India's joint secretary of the Ministry of External Affairs, said the two countries would also explore the possibility of joint projects.

Royal Bank of Canada Closes Accounts Linked to Panama Papers

Royal Bank of Canada has closed the accounts of approximately 40 clients and boosted its tax compliance measures following a review after last year's massive leak of documents related to Panama-based law firm Mossack Fonseca, Bloomberg News reported Tuesday. The leak detailed how the firm helped conceal money through offshore accounts.

with the law, are mixed with young people who have committed crimes," he said. "This can't be allowed to continue."

Former Argentine President Fernández Rebuts Graft Claims

Former Argentine President Christina Fernández de Kirchner on Tuesday filed a written testimony rebutting corruption allegations against her, claiming she is the victim of "judicial persecution," Agence France-Presse reported. An Argentine court is investigating allegations of illicit associations and fraudulent administration in real estate dealings for the former president. Fernández is suspected of favoring a construction magnate for public contracts, and her family's real estate company Los Saucés is suspected of being involved with bribes. "I am the target of judicial and media persecution which is unprecedented in this country's democracy and which also extends to my children," the former president said in an online message. Hundreds of supporters gathered outside the court as she answered a summons



Fernández // File Photo: Argentine Government.

by Federal Judge Claudio Bonadio. The case is Fernández's fourth to reach court since she left office in 2015 and the third in which she faces formal charges. The case comes as Argentina's economy is struggling to bounce back from its recession ahead of the mid-term legislative elections set for October. Tens of thousands of protesters marched on Buenos Aires Monday and Tuesday in a teachers' and hospital workers' strike for higher pay and to protest job cuts under President Mauricio Macri's economic reforms. Macri's production minister, Francisco Cabrera, said the protests were driven by

"political motivations in an election year." Union leaders this week have called for a general strike at the start of next month.

ECONOMIC NEWS

Mexican Economy Minister Defends NAFTA in Detroit

Mexican Economy Minister Ildefonso Guajardo last Friday defended the North American Free Trade Agreement, or NAFTA, during a visit to Detroit, *The Wall Street Journal* reported. During the visit, in which he met with executives of U.S. automakers Ford and General

“Yes, we [in Mexico] are benefiting from this relationship, but it is important to understand this is a benefit that goes both ways.”

— Ildefonso Guajardo

Motors, Guajardo said both the United States and Mexico benefit from NAFTA. "Yes, we [in Mexico] are benefiting from this relationship," Guajardo said. "But it is important to understand this is a benefit that goes both ways." U.S. President Donald Trump has vowed to either renegotiate NAFTA in order to get a better deal or to pull the United States out of the accord. During his campaign, Trump frequently decried the loss of U.S. manufacturing jobs to other countries such as Mexico. However, Guajardo said increased automation, not Mexico, is to blame for the loss of U.S. manufacturing jobs. "We are part of the solution. We are not part of the problem," Guajardo told the Detroit Economic Club, *The Wall Street Journal* reported. "At the end of the day, we have to find a way to better compete with the world." A large part of Mexico's \$60 billion trade surplus comes from trade in the auto industry. Vehicle manufacturers in recent years have increasingly used Mexico as a platform for building cars for export to the United States and elsewhere.

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eral cease-fire declaration. With legislative and presidential elections slated for March and May 2018, respectively, terrorist actions against the sector will likely remain elevated. Regardless of how ELN peace negotiations evolve, it is not clear that Colombia's government can prevent other illegal organizations from filling the power vacuum left by the FARC. The result: increased extortion and corruption, a lack of legitimate employment opportunities and rule of law, and continued inequality. A peace agreement is just the first point on a long list of structural changes Colombia must implement before its energy sector can truly benefit from an end to civil conflict."

A **Santiago González, local partner at the Bogotá office of Norton Rose Fulbright LLP:** "The peace agreement and the consequential disarmament of the FARC rebels is, without hesitation, a landmark in the history of Colombia. The government has no additional excuses for not reaching isolated and rural areas of the country, which were illegally controlled and under the forced influence of armed groups. Infrastructure, education and the satisfaction of the population's basic needs should now be a feasible priority of the government. In this framework, the energy sector will necessarily benefit from the circumstances, given that security conditions and infrastructure will now play in favor of the industry, allowing investors to access remote areas and making

the most of existing but unreachable natural resources. Colombia should definitely see fewer attacks on its oil sector infrastructure. Still, we cannot forget that in addition to the FARC rebels, there are also other illegal armed groups, such as the National Liberation Army, or the ELN, and the former paramilitary and delinquency forces. In particular, the ELN is a guerrilla group that has been actively fighting against the exploitation of natural resources by multinational companies. Attacks on the oil infrastructure such as the Caño Limón-Coveñas oil pipeline is a reality happening right now. The government faces at least four main challenges: (i) complete a successful implementation of the peace agreement with the FARC; (ii) initiate and complete a peace agreement with the ELN; (iii) effectively provide the rural areas of the country with education and infrastructure and satisfy their basic needs; and (iv) firmly combat the dissidents of the FARC, ELN and former paramilitary groups. This last challenge will be key to protecting areas that had previously been under FARC control from environmental exploitation by illegal groups. In turn, the energy industry will have to be prepared to deal with increasing social protests that will be promoted by former members of the rebel groups and the communities that want to receive tangible benefits from the exploitation of Colombia's natural resources. Energy companies will have to identify the best way to fit into the puzzle of the post-conflict era and get actively involved with all stakeholders."

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