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FEATURED Q&A

How Will Peru Finance Its Energy Sector Ambitions?



The government of Peruvian President Pedro Pablo Kuczynski has said it may hold a bond issuance this year to pay for energy sector infrastructure projects. // File Photo: Peruvian Government.

Q In the past month, Peru has said it may sell bonds to help pay for the construction of infrastructure projects at state water company Sedapal through 2021, as well as to assist in financing the \$3.5 billion expansion of the country's Talara oil refinery. Are Peru's financing plans for its energy infrastructure projects sustainable? What other options should the government seek out in order to pay for the expansion of its energy sector? How long will it take before Peru will see a return on its investment as a result of these new projects?

A Jaime E. Luyo, academic director of the PhD Energy Program at the Universidad Nacional de Ingeniería: "In recent weeks, private participation in the construction of services infrastructure has been seriously questioned by both the public and experts, such as in the case of the public-private partnership (PPP) of Chinchero airport, whose contract has been modified by an addendum that sought to correct the original contract, and the concession of the Peruvian Southern Gas Pipeline to Odebrecht, which is facing corruption allegations. On the other hand, President Kuczynski offered in his government plan of the universalization of water service, the massification of natural gas consumption and the modernization of Petroperú, linked to the Talara Refinery project. Amid this environment of politicization of medium- and long-term investment projects, the macroeconomy continues to grow and has even recently improved its credit rating by Fitch Ratings to BBB+. The latter is encouraging for proposals for greater participation of the public sector in the construction of essential infrastructure for devel-

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TOP NEWS

OIL & GAS

Brazil Court Allows Petrobras to Proceed With Asset Sales

Brazil's federal auditing court, on Wednesday overturned a ruling that had frozen state-run oil company Petrobras' asset sales since December.

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POWER SECTOR

Argentina to Hold Four Energy Auctions This Year

President Mauricio Macri hopes to boost Argentina's generating capacity as well as the country's economy ahead of this year's legislative elections.

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OIL & GAS

PDVSA Offers Russia Joint Venture Stake in Orinoco Belt

Venezuelan state-run oil company PDVSA, headed by Eulogio Del Pino, has offered Russian state-run oil company Rosneft a stake in joint venture Petropiar in Venezuela's Orinoco Belt.

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Del Pino // File Photo: Venezuelan Government.

OIL & GAS SECTOR NEWS

PDVSA Offers Russia Joint Venture Stake in Orinoco Belt

Venezuelan state-run oil company PDVSA has offered Russian state-run oil company Rosneft a stake in joint venture Petropiar in Venezuela's Orinoco Belt extra-heavy crude area, five industry sources said, Reuters reported Thursday. Rosneft has been offered in a 10 percent stake in the venture. PDVSA has a 70 percent share, and U.S. oil company Chevron owns a 30 percent stake in the venture, which

“If PDVSA sells 10 [percent] of Petropiar to Rosneft, that sale is null and void.”

— José Guerra

includes an oil field and a 210,000 barrel-per-day oil upgrader. The offer to Rosneft is part of a larger package PDVSA offered the Russian oil producer in the hopes of raising funds to pay suppliers and bond holders, two sources told the wire service. The offer highlights Venezuela's dire economic situation as it searches for ways to increase its cash flow. Venezuela's oil output fell by approximately 10 percent last year, according to OPEC, due in part to the fact that Venezuela cannot afford to extract the oil from its vast reserves. It is not clear whether Rosneft will accept the offer. PDVSA and Venezuela's Oil Ministry did not respond to requests for comment. Chevron and Rosneft declined to comment. “Any deal of national interest must be approved by the National Assembly,” tweeted lawmaker José Guerra, the head of Venezuelan National Assembly's finance commission, after Reuters published the article on the potential deal. “If PDVSA sells 10 [percent] of Petropiar to Rosneft, that sale is null and void.”

ICSID Overturns Order That Venezuela Pay Exxon \$1.4 Billion

The World Bank's International Centre for Settlement of Investment Disputes, or ICSID, on Thursday overturned a previous ruling that

Portions of the original award to ExxonMobil were annulled by the new ruling.

had ordered Venezuela to pay U.S.-based multinational oil company ExxonMobil \$1.4 billion in damages, a lawyer for the Venezuelan government said, Reuters reported. The case at ICSID came as a result of late President Hugo Chávez's nationalizations of the oil sector, in addition to takeovers in the electricity, telecoms, metal and agricultural sectors during his presidency. The panel said “portions of the award,” totaled at \$1.6 billion, were annulled, though it did not give specific details of the figures. The annulment of certain aspects of the award came as welcome news to the cash-strapped nation, which is facing heavy foreign debt payments and a crippling economic recession. A spokesman for ExxonMobil, Todd Spittler, did not confirm the financial details of the new ruling, but said the company “will continue to evaluate its legal rights and determine next steps.”

Brazil Court Allows Petrobras to Proceed With Asset Sales

Brazil's federal auditing court, known as the TCU, on Wednesday overturned a ruling that had frozen state-run oil company Petrobras' asset sales since December, allowing the company to proceed with plans to alleviate its debt load by selling \$21 billion in assets by the

NEWS BRIEFS

Argentina's Pampetrol Restarts Oil Production in Salina Grande I Block

Pampetrol, the state oil company of Argentina's La Pampa province, has restarted oil production at Salina Grande I, a block that previously had been privately operated, with the goal of increasing output, the provincial government said, Platts reported Monday. “Pampetrol has started the first four production wells,” La Pampa said, adding that each of the wells on the block are producing an average of 94 barrels per day. The block had been inactive for a year, the La Pampa government said, adding that the four wells are the first of 10 that Pampetrol will eventually put back into operation.

Invenergy Acquires Uruguay Solar Park

U.S. energy company Invenergy has acquired the 64 megawatt La Jacinta solar park in Uruguay from developer Fotowatio Renewable Ventures, ReNews reported Tuesday. The photovoltaic plant is located in Salto province and is one of Latin America's largest solar power plants. It began operation in October 2015 and consists of 216,000 PV panels. Invenergy also plans to begin operating its nearby 70 megawatt Campo Palomas wind farm in the coming weeks.

SunPower Puts Chilean Solar Plant Up for Sale

SunPower, an energy company majority-owned by French energy company Total, has put the 100-megawatt El Pelicano solar plant in Chile up for sale, according to two people with knowledge of the process, Reuters reported March 9. The plant is currently under construction and is set to be completed next year. The sources did not say what SunPower's target price would be for El Pelicano, but the project originally received \$222 million in funding from banks in Chile, Asia and Europe.

end of 2018, The Wall Street Journal reported. The TCU said in a statement that Petrobras had presented the court with a document that showed that the “risks” that had originally been identified in the company’s divestment program had since been corrected.

POWER SECTOR NEWS

Argentina Planning to Hold Four Energy Auctions This Year

Argentina is planning to hold at least four energy auctions this year that the government expects will attract as much as \$7 billion in investment, Bloomberg News reported Friday. The auctions come as President Mauricio



Macri // File Photo: Argentine Government.

Macri hopes to boost the Argentina’s generating capacity as well as the country’s economy ahead of this year’s legislative elections. The Argentine government will hold two auctions for new thermal energy capacity, one for renewable energy and one for power transmission lines, Energy Minister Juan José Aranguren said, adding that the government is considering adding another auction for thermal projects to this year’s lineup. The auctions this year will be held in a similar fashion as last year’s energy auctions, which are expected to eventually result in \$6.5 billion in investment in Argentina’s energy sector. “We want to maintain the virtuous cycle of public, open auctions, then national and international capital can collaborate to improve Argentina’s electric system reliability and to reduce costs of generation,” said Aranguren. “We have also to ensure the

expansion of the transmission system in parallel to the new generation capacity.” As much as 6.5 gigawatts of new capacity is expected to be added to Argentina’s grid over the next three years, including 3.6 gigawatts of capacity from fossil fuels and 2.8 gigawatts from renewable sources other than large hydropower.

Colombian Gov’t to Liquidate Electricaribe

Colombian authorities on Tuesday said they are liquidating electricity company Electrificadora del Caribe, known as Electricaribe, despite objections from the provider’s parent company, Spain’s Gas Natural SDG, in an escalation of tensions between the Colombian government and one of Europe’s biggest utility providers, The Wall Street Journal reported. Colombia took over Electricaribe four months ago because, according to Colombian Superintendent of Services José Miguel Mendoza, the

company’s distribution network, which provides electricity to Colombia’s Caribbean coast, was responsible for frequent blackouts, and in his view is unfit to provide adequate services to its 2.5 million customers in the region. He said Electricaribe could not afford the necessary upgrades that would be required in order to provide adequate service. “The company is not in a condition to provide energy with the quality and continuity needed,” Mendoza said. “We will have an absolutely public selection process in which we will choose the best option for the coast.” The company will continue to provide electricity to Colombia’s Caribbean coast while the superintendent’s office begins auctioning off the company’s assets in order to pay off liabilities amounting to approximately \$830 million. Gas Natural, which owns an 85 percent stake in Electricaribe, said in a statement that the liquidation of the company is “contrary to the conversation” the company had had with Colombia over the past few months. Gas Natural said it would seek recourse through the arm of the World Bank that rules on state-investor disputes.

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opment through the sale of bonds and other financing options that are less onerous for the country. Apart from the real-time project, the vast majority of important projects in the energy sector are private concessions; the PPP option should be viewed as correcting the excess of addenda in the contracts, and also in the syndicated credit. In Sedapal’s water service expansion, a lower investment will have a great social and economic return both in the short term, to 2021, and as construction is developed. The return on investment in real time will be seen in about a decade.”

A César Gutiérrez Peña, director at Utilities Peru and former president of Petroperú: “Since taking office six months ago, the Pedro Pablo Kuczynski administration’s approval ratings have sunk significantly to between 29 percent and 35 percent; the administration has turned into a precarious

one. Under these conditions, it’s impractical to try to promote private investment in public companies like Sedapal in Lima, which deals with drinking water and sewer systems, or

“It’s impractical to try to promote private investment in public companies like Sedapal in Lima ... or state oil company Petroperú.”

— César Gutiérrez Peña

state oil company Petroperú. These kinds of policy decisions need popular and political backing, which the administration does not have. Right now, Sedapal requires no less than \$600 million in order to finance its

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POLITICAL NEWS

Trump Seeking Cuts of 28% in State Dept., USAID Budgets

U.S. President Donald Trump is seeking to cut the budgets of the State Department and the U.S. Agency for International Development, or USAID, by 28.5 percent as compared to the 2016 fiscal year, according to a budget outline released Thursday, Bloomberg News reported. At the same time, Trump is calling for a \$54 billion increase in military spending that would be paid for by broad cuts to nearly every domestic department, Politico reported. Under the proposal, which faces debate in Congress, the Trump administration proposed slashing funding for multilateral lenders such as the World Bank by \$650 million over three years, Bloomberg News reported. In the 2016 fiscal year, the United States allocated \$2.3 billion in funding to development banks, an amount that included \$1.2 billion for a World Bank fund for the world's poorest countries. "These steps to reduce foreign assistance free up funding for critical priorities here at home and put America first," the administration said, invoking Trump's "America First" campaign pledge. In an appearance today in Tokyo, U.S. Secretary of State Rex Tillerson said he "willingly" accepted Trump's goal of reducing funding to the department. "Clearly the level of spending that the State Department has been undertaking, particularly in the past year, is simply not sustainable," Tillerson said alongside his Japanese counterpart, Fumio Kishida. The State Department will find "a way forward that allows us to be much more effective and much more efficient to be able to do a lot with fewer dollars." Tillerson said recent spending increases at the State Department were due to U.S. involvements in foreign conflicts and allocations of money following disasters. Members of Trump's own Republican Party, which controls both chambers of Congress, have been among those criticizing deep cuts to the diplomatic budget, which were first floated last month. At the time, the White House was considering cuts of as much as 37 percent to

IN FOCUS

Mexico's López Obrador Seeks to Protect Migrants in Petition to OAS Rights Body

By Nicole Wasson

WASHINGTON—Mexican presidential hopeful Andrés Manuel López Obrador on Wednesday delivered a petition to the Inter-American Commission on Human Rights, an autonomous organ of the Organization of American States, calling for the commission to issue an injunction to protect immigrants he said have been subject to discrimination and arbitrary deportation, due to executive orders issued by U.S. President Donald Trump.

In addition to seeking to protect immigrants, López Obrador said he also traveled to Washington to petition against Trump's plan to build a massive wall along the U.S. border with Mexico. López Obrador said he delivered the petition to the Inter-American Commission on Human Rights, saying he cannot petition the United Nations because he is not Mexico's head of state.

After delivering the petition, López Obrador criticized Mexican President Enrique Peña Nieto's relationship with Trump, saying the current Mexican president has taken a submissive stance toward Trump.

"As a Mexican, I am disappointed in President Peña, who has been humiliated by President Donald Trump during their phone call," López Obrador told reporters Wednesday at the National Press Club.

He said the content of the conversation between the two during the phone call in

January should be released, but that he believes Peña Nieto's conversation with Trump was "shameful."



López Obrador spoke to reporters Wednesday in Washington. // Photo: Latin America Advisor.

"We do not want a relationship of subordination, and we won't accept it," said López Obrador. "Mexico is an independent and free country, not a colony or protectorate." He said Trump uses migrants as a scapegoat for the United States' problems.

"We will not permit the discourse based on hate, which, in the end, is neofascism. It is not true that Mexicans are at fault for the problems of the United States. There are other causes: for instance, the great inequality in the United States, and the tax system—we need to look into the United States to see if it could be more progressive and fairer to all Americans."

López Obrador added that if he is elected Mexico's president next year, he hopes to foster a relationship with the United States that is based on respect and friendship. When asked how he would approach renegotiating NAFTA with the United States, López Obrador said that for both countries, it is important to maintain commercial and diplomatic relations, but that he hopes neither side will rush into any decisions on changing the free-trade agreement.

"I think that we will achieve it in time, and that we will not bring about any commercial revisions before Mexico's [upcoming presidential] elections," he said.

NEWS BRIEFS

At Least a Dozen Killed in Peru Floods, Mudslides

Flooding and mudslides from heavy rains killed at least a dozen people in Peru on Thursday, the Associated Press reported. The rains are threatening to flood Lima, the country's capital and a city where it rarely rains. Authorities have blamed the heavy rain on the El Niño weather phenomenon, in which a warming of surface waters in the Pacific Ocean can lead to dramatic weather patterns. Officials say 62 people have died and 12,000 homes have been destroyed by storms this year.

Argentina's Jobless Rate Falls to 7.6 Percent in Q4

Argentina's unemployment rate declined to 7.6 percent in last year's fourth quarter, as compared to 8.5 percent in the third quarter and 9.3 percent in the second quarter, the country's statistics agency said Thursday, The Wall Street Journal reported. Data from the Labor Ministry showed the private sector has been adding jobs since last July. Another reason for the decreasing jobless rate, however, is that fewer people are actively looking for work, Fausto Spotorno, an economist at research firm Orlando J. Ferreres & Asociados in Buenos Aires, told the newspaper.

Mothers of Victims Led Authorities to Mexico Mass Grave

A group of mothers of missing Mexicans led authorities to a mass grave in Veracruz state that officials this week said contains more than 250 skulls, The Wall Street Journal reported Wednesday. Last May, two men dashed out of an SUV during a march held by mothers in Veracruz and pressed crudely drawn maps into their hands showing the location of the mass grave. Officials said killers have likely been depositing bodies into the mass grave for at least four years.

the State Department and USAID budgets. "If it's anywhere in the ballpark of what I've seen about the State Department, that's definitely dead on arrival," said Senator Lindsey Graham



Graham // File Photo: U.S. Senate.

(R-S.C.). "That guts soft power and puts our diplomats at risk." Under the cuts, the United States would also end payments to the Global Climate Change Initiative and to United Nations climate change programs. [Editor's note: See related [Q&A](#) in the March 6 issue of the daily Latin America Advisor.]

Dozens of Rights Defenders Killed Last Year in Colombia: UN

Dozens of human rights defenders were killed last year in Colombia, the United Nations said in a report released Thursday, Reuters reported. Armed groups have been moving into areas that had been controlled by the Revolutionary Armed Forces of Colombia, or FARC, rebels, which signed a peace agreement last year with Colombia's government, the U.N. agency said in the report. At least 59 defenders of human rights were killed last year in the South American country, as compared to 45 in 2014, the report added. It also said armed groups that are involved in drug trafficking and illegal gold mining see activists as a threat and have targeted those who speak out against human rights abuses. "The FARC leaving is complicating the lives of leaders," Todd Howland, head of the United Nations' human rights office in Colombia, told reporters Thursday, Reuters reported. "The state has an obligation to guarantee the protection of everyone." Howland added that violence against human rights defenders has been most frequent in rural areas,

particularly along the country's northern borders and along the Pacific coastline. "There's a fight to occupy these areas," he said. In 2016, a total of 14 human rights defenders were killed in the western province of Cauca, which was a stronghold of the FARC and is a drug-producing area, according to the U.N. report. Colombian Interior Minister Juan Fernando Cristo said such violence against human rights leaders could hinder the success of the government's peace deal with the FARC. "We're all interested in facing these threats and these murders because we know that it seriously affects the chances of consolidating peace in Colombia," said Cristo.

ECONOMIC NEWS

Venezuela Threatens to Seize Bakeries Amid Bread Shortage

Venezuela has threatened to seize bakeries that fail to abide by government regulations as the country grapples with a bread shortage in the latest development in the country's crippling recession, BBC News reported Wednesday. Officials said bakeries would face fines if Venezuelans were forced to stand in line to purchase bread. Due to severe shortages of basic goods, Venezuelans often have to stand in line for hours to purchase essential items. The government has blamed bakeries for the bread shortages, saying they are using the flour to bake pastries rather than loaves of bread as a way of increasing profit. The prices for simple baguettes are controlled by the government. New government regulations require bakeries to use 90 percent of the flour they are allotted for baking ordinary bread and the other 10 percent can be used for pastries and sweetened goods. On Sunday, Venezuelan President Nicolás Maduro said he would be sending inspectors to 709 bakeries in Caracas in order to ensure that the bakeries were complying with the regulations. "They're going to pay, I swear. Those responsible for the bread war are going to pay and they better not complain that it was a political persecution," he said.

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investment plans through 2021. Meanwhile, Petroperú requires \$4.2 billion in investment. In order to cover the anticipated debt, the government is planning a bond issuance of \$3.2 billion, as well as \$1.3 billion with the Spanish commercial risk management firm, Cesce. It will be difficult to honor the payment of this enormous debt via tariffs in the case of Sedapal, and the government has to give financial assistance in the fiscal till. In the case of Petroperú, it's the consumers who will pay a higher price for fuel. In fact, this has already been internalized today, in that Peruvians pay 15 percent more than they would for a similar imported product. The competition is limited to importers, due to a lack of storage capacity at a national level."

A **Emilio Zúñiga, vice president at Latin Pacific Capital:** "At present, the energy sector has overcapacity in power generation, but the transmission grid is expanding all over the country. As a result, there is no need for funds for new power generation plants, and the transmission lines are funded through private concessions. Small rural power projects are in place, but the expected budget is around \$600 million. The \$3.5 bil-

lion needed to finance the expansion of the Talara Refinery through government bonds has room in Peru's macroeconomic debt

“ At present, the energy sector has overcapacity in power generation.”

— Emilio Zúñiga

situation, where the ratio of debt to GDP is around 30 percent. However, investing \$3.5 billion in expanding the capacity to 30,000 barrels per day will not recover the investment, as the refinery margin will have to be well over the market average. Overall, Peru has a solid financial position, and given its investment grade funding through direct private investment or private debt and fiscal resources, the country has long-term sustainability to finance its energy projects."

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

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