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FEATURED Q&A

Is Petrobras on the Right Track Under Pedro Parente?



Brazilian state-run oil company Petrobras has cut its debt by 20 percent since Pedro Parente became CEO in May. // File Photo: Brazilian Government.

Q Brazil's federal auditing court, known as the TCU, on March 15 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 end of 2018. Executives have said selling the target amount of assets is crucial for the state-run oil company's survival, as it works to pay down its \$123 billion in debt. Will Petrobras have any luck selling its assets while global oil prices remain relatively low? Are executives right in saying that the asset sale will be a boon for the company's debt-reduction? What else should Petrobras do to turn its financial situation around?

A Edmar Luiz Fagundes de Almeida, professor and member of the Energy Economics Group at the Universidade Federal do Rio de Janeiro: "The agreement with Brazil's federal auditing court, the TCU, represents an important achievement for Petrobras to push forward its disinvestment plan. The TCU's decision to halt the process of asset sales by Petrobras created important uncertainties regarding the feasibility of the disinvestment plan. Petrobras has negotiated and signed deals totaling \$13.6 billion. However, a significant portion of these deals was waiting for TCU approval. Several other deals are under negotiation, including two strategic partnerships, one with Total and another one with Statoil. It is also worth mentioning the intention to sell the control of BR Distribuidora, the largest fuel distribution company in the country. The recent improvement of the international oil market, and the efforts by the new Brazilian government to improve the business

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Trump Grants Permit to Build Keystone XL

Trump said the pipeline is "the first of many infrastructure projects" he will approve during his presidency.

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Rio Energy Receives Funding for Wind Farm

Rio Energy has secured approximately \$270 million in funding from Brazil's National Bank for Economic and Social Development, or BNDES, to construct a 223-megawatt wind farm project in Bahia state.

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OIL & GAS

Brazil's Cunha Sentenced in Petrobras Probe

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Cunha // File Photo: Brazilian Government.

OIL & GAS SECTOR NEWS

Brazil's Cunha Sentenced in Petrobras Probe

Brazil's former speaker of the house, Eduardo Cunha, was sentenced to 15 years and four months in prison on Thursday for corruption, money laundering and tax evasion related to the massive Petrobras corruption probe, Forbes reported. Cunha's sentencing was the highest-profile yet in the graft scandal involving the

Cunha's sentencing is the highest-profile yet, and is seen as a win for anti-corruption advocates.

state-run oil company, construction conglomerate Odebrecht and many of the country's top politicians. Cunha had been the driving force behind the impeachment of former President Dilma Rousseff last year. In July, he was forced out of his position as speaker on charges of corruption, Reuters reported. He was arrested in October on accusations that he had received millions of dollars in bribes in connection with the purchase of an oil field in Benin by Petrobras. In related news, Brazilian federal police on Tuesday arrested former Petrobras executive Roberto Gonçalves on the order of Federal Judge Sérgio Moro for his alleged involvement in the massive corruption scheme, Reuters reported. Police said Gonçalves allegedly received at least \$5 million in bribes paid to overseas bank accounts. Prosecutor Roberson Pozzobon said Gonçalves is suspected of using bank accounts in China, the Bahamas and Switzerland to receive the bribes from construction companies to Petrobras in exchange for getting lucrative government contracts, the Associated Press reported. More than 200 people have been charged in the "Operation Car Wash" corruption probe, and it is expected that

the Supreme Court will soon approve investigations into other sitting politicians in connection with the scandal, Reuters reported.

Trump Grants Permit for Keystone XL Construction

U.S. President Donald Trump last Friday announced that his administration was granting a permit to construct the controversial Keystone XL pipeline, which he said would be "the first of many infrastructure projects" he would approve during his presidency, The Washington Post reported. The \$8 billion project will span 1,200 miles and will connect Alberta's tar sands crude with pipelines and refineries located on the Texas gulf coast that are suited for refining heavy crude. Russ Girling, CEO of TransCanada, the Calgary-based energy company that has been trying to win approval for the pipeline for nearly 10 years, called the permit a "significant milestone" for the project.



Girling // File Photo:TransCanada.

Following the approval, TransCanada will drop a \$15 billion arbitration claim in damages the company had filed under the North American Free Trade Agreement. In the past, Trump had said TransCanada would be required to use U.S. steel to build the pipeline. The company had already purchased the steel four years ago, and only about 50 percent had come from the United States. Trump made no mention of U.S. steel on Friday, and the White House earlier this month said the requirement of using U.S. steel for infrastructure projects would be waived for Keystone XL. Secretary of State Rex Tillerson, the former chief executive of oil giant Exxon-

NEWS BRIEFS

Enel Secures Financing for Exploration for Geothermal Plant in Chile

Italian multinational renewable energy company Enel Green Power has secured a \$30 million corporate loan facility from the Inter-American Investment Corporation to finance exploration for what could be the first geothermal power plant in South America, according to a statement by the IIC on Monday. The project is located in the Chile's Atacama Desert and consists of three power plants with a combined capacity of 75 megawatts, a nearly 50-mile-long transmission line and other facilities. The IIC's loan will finance the drilling costs in the exploratory phase of the project.

Venezuela's José Oil Terminal Face Oil Spill

A break in a pipeline caused an oil spill at Venezuela's main oil-exporting port, José, on Tuesday, Reuters reported. The pipeline runs from the oil terminal to a single buoy mooring, or SBM, facility off Venezuela's eastern coast, according to four sources familiar with the incident. Operators confirmed there were no vessels docked at the SBM during the incident. The sources could not confirm the spill's magnitude. State-owned oil company PDVSA did not immediately respond to requests for comment.

Ecopetrol Announces Medium Crude Discovery in Santander Department

Colombian state oil company Ecopetrol on Thursday announced a crude discovery at the Boranda-1 well in Santander department, according to Canada News Wire. The medium crude discovery was in the Esmeraldas formation. Boranda-1 is operated by Parex, which owns a 50 percent stake in the project, while Ecopetrol owns the other half.

Mobil, had recused himself from the decision to grant a permit for the pipeline.

Argentina's YPF, Total, Pan American to Invest \$500 Mn in Vaca Muerta

Argentine state-oil company YPF, along with Pan American Energy, Total Austral and Wintershall Energía, will make a joint \$500 million shale gas investment in the Vaca Muerta

“If approved, Total will be in charge of the [eastern area] and Pan American Energy will take over the western area.”

— YPF

formation, according to a securities filing on Thursday, Reuters reported. “If approved, Total will be in charge of the [eastern area] and Pan American Energy will take over the western area,” YPF said in the filing. YPF will reduce its stake in the areas while also making a \$52.3 million investment. The statement did not indicate how much the other companies would invest. The companies were already working in the Aguada Pichana area, and are now asking regulators to split the area in two.

Mexico Oil Discovery Likely Larger Than Estimated: Eni CEO

State-controlled Italian oil company Eni said Wednesday its oil discovery at the Amoca-2 well off Mexico's coast is expected to hold more than the 800 million barrels of oil the company had originally estimated, Reuters

reported. “This is an important find, and we've found new layers of good light oil that make us think there's more,” Chief Executive Claudio Descalzi said. Earlier this month, Eni had said it discovered “meaningful” oil reserves after becoming the first international oil company to drill a well in Mexico since the 2013 energy reform that opened the country's energy sector up to international investment, the Financial Times reported. Descalzi said Mexican state oil company Pemex has installations close to the discovery, and that he would speak with the company in the coming months about using some of their infrastructure on the Amoca-2 well.

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environment in the Brazilian upstream, contributed to increasing the market interest in Brazilian upstream assets. This is very good news for Petrobras, which has a large number of assets in the upstream to offer. Therefore, there is a favorable prospect for Petrobras to meet its target in the divestment plan. Even though Petrobras' debt is much larger than the amount the company

“At this moment, trust is what can add more value to the company.”

— Edmar Luiz Fagundes de Almeida

can raise through asset sales, its ability to proceed with the divestment plan will not only bring new cash for the company, but more importantly, will increase market confidence in its ability to repay debt in the long run. At this moment, trust is what can add more value to the company.”

Alexis Arthur, independent energy analyst: “That Brazil's Petrobras missed its divestment target in 2016 is unsurprising.

Of course, staggering debt is not Petrobras' only problem. The national oil company has been at the center of the ongoing investi-

RENEWABLES NEWS

Rio Energy Receives \$270 Mn in Funding for Wind Farm

Rio Energy has secured approximately \$270 million in funding from Brazil's National Bank for Economic and Social Development, or BNDES, to construct a 223-megawatt wind farm project in Bahia state, Wind Power Monthly reported Tuesday. The project will comprise eight separate wind farms and will use 95 2.35

gation into bribery and kickbacks that has consumed much of Brazil's business and political elite. Still, there is clearly some interest in what the Brazilian company has to offer. Petrobras formed a ‘strategic alliance’ with Total last December, which included the sale of \$2.2 billion in assets. This followed a \$2.5 billion deal with Statoil in July. And the company was only \$1.5 billion off its two-year, \$15 billion divestment target. Whether it will have more luck in the next round remains unclear. While oil prices are low, they are not historically low. Indeed, they have recovered to a level more in line with historic trends after the abnormal, four-year, \$100+ per barrel high from 2011 to 2014. The subsequent price collapse has been less harmful to the industry than many feared. That being said, oil prices have remained stubbornly at around \$50 per barrel, lower than what many analysts predicted. Just as the historic price peak opened areas that were previously economically unviable, the drop has pushed more expensive, complex projects (such as presalt and other deep-water areas) back to the sidelines. Global pressure to reduce fossil fuel production and the urgency of climate action is also important in terms of the long-term upstream landscape. Still, Petrobras has much to offer, with a diverse portfolio of upstream and downstream assets to choose from. It may not be the best time for Petrobras to be

Continued on page 6

megawatt turbines. The funding from BNDES will also be used to build a substation, create road access and build a transmission line. The project is set to begin operations in November of next year. The new wind farms will nearly double Rio Energy's portfolio of operating wind turbines to almost 500 megawatts, CEO Marco Meireles said. The company expects the project to create 1,400 direct and indirect jobs through the supply chain, construction and operation stages, Energy Business Review reported.

ECONOMIC NEWS

White House Eyeing Mainly Modest Changes to NAFTA

The administration of U.S. President Donald Trump is considering relatively modest changes to the North American Free Trade Agreement, or NAFTA, which Trump during the campaign called a "disaster" and "the single worst trade deal ever approved in this country," The Wall Street Journal reported. According to a draft proposal sent to members of Congress by the U.S. trade representative's office, the White House is looking at keeping some of the most controversial parts of the accord, including an arbitration panel that allows investors in the three signatory nations, the United States, Mexico and Canada, bypass local courts to resolve civil cases. Critics of the provision say the panels are an affront to national sovereignty. Instead of doing away with the panels, the draft proposal aims to seek "to improve procedures to resolve disputes." The proposal also does not indicate that the United States would use negotiations over the trade deal to wrangle over foreign currency policies or seek to achieve numerical targets for trade deficits, as some have urged. The draft proposal does, however, call for allowing a NAFTA member to respond to a flood of imports that "cause serious injury or threat of serious injury" by reinstating tariffs. The draft appears designed to appease both trade hawks who want to use the NAFTA talks to set a new agenda for trade and

ADVISOR Q&A

How Well Is Mexico Handling Relations With the U.S.?

Q **Mexican presidential hopeful Andrés Manuel López Obrador criticized Enrique Peña Nieto during a March 15 visit to Washington, saying the current Mexican president has taken a subordinate stance in relation to his U.S. counterpart, Donald Trump. López Obrador said that if elected Mexico's president next year, he would foster a relationship with the United States that is based on respect. How well is Peña Nieto's government handling relations with the Trump administration? What strategies are guiding Mexico's foreign policy, both with the United States and other countries? Would more prickly relations with the United States lead Mexico to strengthen diplomatic and trade ties with other countries?**

A **Andrés Rozental, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House:** "To a great extent, I agree with López Obrador's criticism of the Peña Nieto government's stance toward Donald Trump, his administration, his campaign and his transition to the presidency of the United States. The Mexican government was silent and complacent during the almost two years that Trump based much of his political quest for the presidency on attacks against Mexicans and Mexico. Had we responded to Trump's insults and aggressive statements with a strong official position from the very beginning, we might have been able to avoid his derogatory use of Mexico to get elected. As for Peña Nieto's

handling of the Mexico-U.S. relationship, the overriding strategy and objective appears to be to save NAFTA and our free-trade relationship at all costs, as well as to protect the millions of Mexicans living in the United States. Both of these are defensive in nature rather than proactive. I believe that Trump respects strength and conviction in his counterparts, not weakness. Mexico needs to play its cards intelligently and aggressively if there is any expectation that we will be able to negotiate a fair and balanced relationship with our northern neighbor. On other parts of López Obrador's populist agenda, I couldn't disagree more with his opposition to the structural reforms that Mexico has undergone over the last two and a half decades, or his disdain of existing institutions that have given Mexico democracy and political stability. Trump is a populist on the right, López Obrador is one on the left. Both are bad news for Americans and Mexicans, because their promises to 'make America great again' or 'return Mexico to the past' are dangerous and destructive. If the current wake-up call to Mexico that over-dependence on the United States can be unhealthy—as well as beneficial—results in diversification of our trade and investment relationships, that will be a positive outcome for the country and its future."

EDITOR'S NOTE: More [commentary](#) on this topic appeared in Wednesday's issue of the daily Latin America Advisor.

moderates who more strongly favor free trade. The draft proposal still may be revised. By law, the White House must give Congress a 90-day notice before formally beginning renegotiations. A letter accompanying the draft said the

United States' trade deficit with Mexico and Canada "demands that this administration take swift action to revise the relationship." The draft does not, however, specify any measures that could be taken to close that trade deficit,

NEWS BRIEFS

Brazil, U.S. in Talks for Temer to Visit Washington

Brazilian and U.S. officials are in talks to coordinate a visit from Brazilian President Michel Temer to the White House to discuss bilateral trade and investment issues, two sources in Temer's office said Wednesday, Reuters reported. U.S. President Donald Trump invited Temer to visit Washington during a phone call on March 18, when the two leaders discussed strengthening commercial and business ties between the two countries. No date for the visit has been set, the sources told the wire service.

Argentina Reports Higher Economic Activity, Fall in Poverty Rate

Argentina's economic activity increased by 1.1 percent in January year-on-year, showing the first year-on-year growth since March 2016, and the country's poverty rate fell in the second half of last year, according to government data published Tuesday, Reuters reported. Economic activity in January contracted by 0.5 percent from the month before, however, showing that Argentina's economic growth is still fragile. The economy grew month-on-month in November and December.

Bolivia's Morales Travels to Cuba for Throat Surgery

Bolivian President Evo Morales late Wednesday boarded a flight to Cuba to undergo throat surgery, local news outlet RPP reported. Morales said it "hurts to leave" Bolivia, minutes before he boarded the plane in Cochabamba. Morales added that he decided, after he recovered from a viral illness, to move up the date of his surgery from April 7 or 8. The surgery will be performed on the vocal cord on the left side where a nodule is located. "According to doctors, it's not a serious issue," he said.

The Wall Street Journal reported. The draft says that the percentages of products that must be produced in North America, or so-called "rules of origin," could be established in a way that "supports production in the United States." However, it does not specify any details on how that would be accomplished or what amount of U.S. content the administration would seek. Another change could include government procurement. Under NAFTA, the United States is currently required to consider bids from companies in Canada and Mexico for U.S. infrastructure projects. [Editor's note: See [Q&A](#) on NAFTA in the Jan. 6 issue of the daily Latin America Advisor.]

POLITICAL NEWS

OAS Backs Off Threat to Suspend Venezuela

The Organization of American States on Tuesday backed away from a threat to suspend Venezuela from the bloc during a meeting in Washington to discuss the country's political and economic crises, the Associated Press reported. The three-hour meeting concluded with a declaration by 20 OAS member nations vowing to take steps toward a diplomatic solution, but providing few details on what such a solution might entail. In the contentious meeting, member states urged Venezuelan President Nicolás Maduro's government to settle its differences with the opposition through dialogue. The meeting was called to discuss a 75-page report released two weeks ago by OAS Secretary-General Luis Almagro, who said democracy and rule of law have broken down in Venezuela. Almagro has called for Venezuela's suspension from the OAS unless it holds new elections. In a news briefing Tuesday, a top U.S. official said the State Department shared Almagro's "concern about the state of democracy in Venezuela," the Voice of America reported. However, the official added, "We urge Venezuela to participate in a productive discussion on how to resolve the economic and humanitarian crisis in that country. Our objective in this session is not an immediate suspension." In an angry speech during the meeting, Venezuela's vice

minister of foreign affairs, Samuel Moncada, blasted OAS member states that have called on Venezuela to hold elections, saying they are infringing on the Andean nation's sovereignty. At one point, the session became so tense that Mexican Ambassador Luis Alfonso de Alba told Moncada in English, "Stick to the point," the AP reported. Moncada replied, "I came here to say what I needed to say. I don't care about their reaction." Venezuela had sought to cancel the meeting altogether, an effort that drew support from the Dominican Republic, El Salvador and Haiti. As the meeting continued on Tuesday, Venezuelan officials referred to what they called an "anti-imperialist rally" taking place in Caracas, called to denounce the OAS' threats to suspend Venezuela. Later during a televised cabinet meeting, Maduro expressed approval about the outcome of the OAS meeting. "We've defeated the State Department, we've defeated the Mexican foreign ministry, we've defeated the Venezuelan right wing," he said.

Colombian Congress Approves Naranjo as Vice President

Colombia's Congress on Wednesday approved retired General Óscar Naranjo as the country's vice president, Reuters reported. Naranjo replaces Germán Vargas Lleras, who stepped down this month in order to qualify for running for president next year. President Juan Manuel Santos had nominated Naranjo, who was confirmed with 168 votes in the Congress' lower house and Senate. Twenty-one legislators cast blank or null notes, the wire service reported. Santos was Colombia's defense minister when Naranjo became national police chief in 2007. Naranjo was the country's police chief until 2012. In that role, he led a push to combat organized crime and drug trafficking in the Andean nation. The retired general also served on the government's negotiating team, which was in talks with the Revolutionary Armed Forces of Colombia, or FARC, for four years before reaching a peace deal last year. [Editor's note: See [Q&A](#) on Colombia's upcoming presidential election in the March 28 issue of the daily Latin America Advisor.]

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selling, but political and financial pressures have left the Brazilian national oil company with little room to maneuver.”

A **Francisco Ebeling Barros, Berlin-based independent energy consultant:** “From the moment he took office as the new CEO of Petrobras, Pedro Parente announced that his first and foremost goal was to cut back the company’s massive debt. To achieve it, he put some of Petrobras’ oil fields, the shares the company held in Braskem, a part of Petrobras’ biofuels division, gas pipelines and other assets up for sale. However, he has been blamed by his critics for opening the ‘Petrobras bazar,’ which is arguably a shameless sell-off of Brazil’s public patrimony. Brazil’s federal auditing court, the TCU, was called upon to rule whether selling \$21 billion in assets by the end of 2018 was legal or not. Recently, it decided that Parente can go forward with his sales plans. As a rule of thumb, I like to think that business plans have to be evaluated, and that Parente’s approach, which is that there is no alternative to his plan, would merit an evaluation. Take the more recent case of the P-59 and P-60 oil rigs, which Parente wants to sell for 5.6 percent of their original value. Considering the recent tendency toward industrial

concentration in the oil field service market, it is reasonable to assume that in the mid-term, Petrobras will probably lose money by renting equipment it once owned. Although the oil industry had been doomed to die somewhere between 2014 and 2016, this will be a very slow death. Thus, Petrobras will

“**Although the oil industry has been doomed to die somewhere between 2014 and 2016, this will be a very slow death.**”

– Francisco Ebeling Barros

still be able to make money by increasing the production of the presalt fields and will almost naturally reduce its debt load. For Parente’s successor, it will be mandatory to be much more strategic vis-à-vis the realpolitik of the ‘End of Oil’ age, and much less obsessed with the reduction of the debt burden.”

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

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

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fretrial@thedialogue.org

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