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FEATURED Q&A

Will Trump Cut U.S. Funding for Project Finance?



World Bank President Jim Yong Kim, among other leaders of multinational lenders, has expressed concerns that the Trump administration may cut funding to the lenders that would normally go to project finance in Latin America. // File Photo: World Bank.

Q Despite high levels of interest from multilateral and commercial lenders for project finance for infrastructure and energy projects in Latin America over the last year, uncertainty surrounding U.S. policies under President Donald Trump's administration has raised concerns about a potential decrease in U.S. funding for multilateral lenders, including from World Bank President Jim Yong Kim, Bloomberg News reported last month. Is it likely that the United States will cut funding that would normally go to project finance in Latin America and the Caribbean? How will multilateral lending institutions that receive funding from the United States respond, if U.S. funding under the Trump administration dries up? Would non-U.S. players step up if the United States decides to scale back? How would Latin America's energy sector be affected by a potential change in funding sources for projects?

A Roldan Trujillo, Owner and Managing Director, RCT Advisory LLC in Virginia: "Clearly, the Trump administration does not view multilateralism as a key instrument of its foreign policy and likely won't continue supporting capital replenishments for development finance institutions. This, however, should not have a dramatic negative impact on lending for infrastructure and energy projects in Latin America for a number of reasons. First, multilateral financial institutions such as the Inter-American Development Bank, the Inter-American Investment Corporation and the World Bank are strongly capitalized and rely on the international capital markets to finance their normal on-lending operations. They should be able to continue financing both public sector

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TOP NEWS

OIL & GAS

Production at Vaca Muerta to Double From 2016 by 2018

Production at the seven most advanced developments at Argentina's Vaca Muerta shale play is expected double last year's average production levels by next year, to 113,000 barrels of oil per day.

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OIL & GAS

Pemex Posts First Quarterly Profit Since 2012

Mexican state oil company Pemex on Wednesday reported a quarterly profit for the first time since 2012, posting a first quarter net profit of \$4.7 billion.

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RENEWABLES

Chile's Renewable Capacity to Reach 5 GW by End of 2018

Chile's installed non-conventional renewable energy capacity is expected to reach 5 gigawatts by the end of 2018, Energy Minister Andrés Rebolledo said.

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Rebolledo // File Photo: Chilean Government.

OIL & GAS SECTOR NEWS

Production at Vaca Muerta to Double From 2016 by 2018

Production at the seven most advanced developments at Argentina's Vaca Muerta shale formation, which totals only about 8 percent of play acreage, is expected to increase by 43 percent to 77,000 barrels of oil equivalent

“Vaca Muerta operators are still in the early stages of the learning curve.”

— Elena Nikolova

per day this year, and is expected double last year's average production levels by next year, to 113,000 boed, according to an analysis published by Wood Mackenzie on Thursday. “Our scenarios from the study demonstrate that production could peak between 0.7 and 1.25 million boed by 2031,” said Elena Nikolova, Wood Mackenzie's Latin America upstream oil and gas research analyst. New pilot and development agreements at Vaca Muerta since January have totaled more than \$3.5 billion, signaling increased interest in the shale formation, especially in natural gas. It is also expected that Argentina will soon be able to compete with U.S. shale. “Vaca Muerta operators are still in the early stages of the learning curve. Production gains driven by drilling speed and completion intensity in the United States will materialize in Argentina, as more and more operators enter the play,” Nikolova said.

Pemex Posts First Quarterly Profit Since 2012

Mexican state oil company Pemex on Wednesday reported a quarterly profit for the first time since 2012, posting a first quarter net profit

of 87.9 billion pesos, or \$4.7 billion, Reuters reported. Pemex posted a 62 billion peso loss during the same period last year. Higher oil prices and an increased value of the peso both helped boost the company's profit, the Financial Times reported. The company said that in light of the first quarter growth, it plans to redouble efforts to search for partners to help boost the company's output. Crude output in the first quarter was 2.018 million barrels per day, down 9.5 percent from 2.23 million bpd during the same period last year, though in line with the company's expectations. “We are analyzing more fields ... we are preparing a set of 52 entitlements [fields which Pemex was allowed to keep under the 2013 energy reform] to go into farm-outs,” said Luis Ramos, Pemex's deputy director of exploration and production portfolio management, during a conference call with analysts. The average price for Mexican crude during the first quarter, however, was up 70 percent year-over-year to \$44.11 per barrel as compared to \$25.87 per barrel, which led to a quarterly profit, despite a drop in production, Reuters reported. [Editor's note: See related [Q&A](#) in the April 21 issue of the Energy Advisor.]

Petrobras on Track to Meet Asset Sales Goals: CEO

The relatively low price of oil is unlikely to affect Petrobras' efforts to sell as much as \$21 billion in assets or find partners for its exploration and refining activities by the end of next year, Petrobras CEO Pedro Parente said Tuesday, Reuters reported. Parente said the company has already been able to make money despite operating in an unstable oil price environment, which he said may help attract potential partners in their operations. “We can only improve by having partners helping us to get more benefits ... I don't see why the current oil price environment would create risks for our divestment plan,” he said. Petrobras is the world's most indebted oil company, and it is hoping that shedding some of its non-core assets will help to balance the books. Parente's

NEWS BRIEFS

Brazil's Oil Output Rises by 12.6 Percent

Brazil's oil output jumped by 12.6 percent to 2.55 million barrels per day of crude in March year-over-year, Reuters reported Tuesday, citing oil and gas regulator ANP. Natural gas production in the country also increased, rising by 12.2 percent year-over-year to 101.3 million cubic meters in March. However, both oil and gas production fell for the third month in a row in March, when compared to record-high output of 2.73 million bpd in December. State oil company Petrobras said scheduled maintenance at certain rigs was responsible for the overall drop in production since December.

Colombia's Ecopetrol Announces Natural Gas Discovery at Purple Angel

Colombian state oil and natural gas company Ecopetrol on Wednesday announced a natural gas discovery at exploratory well Gorgon-1, which is part of the Purple Angel block the company shares with U.S.-based oil company Anadarko Petroleum, Reuters reported. The well is close to the Kronos-1 and Purple Angel-1 wells, and the discovery at Gorgon-1 between 3,675 and 4,415 meters below sea level means there is a possibility of developing a production cluster.

PDVSA Resumes Light Crude Exports to Cuba

Venezuelan state oil company PDVSA resumed exports of light crude to Cuba in March after an eight-month pause in exports to the country's political ally, according to internal data seen by Reuters, the wire service reported Monday. The export freeze to Cuba had led to a production halt at the Cienfuegos refinery on the island, which is jointly owned by the two countries. In March, PDVSA sent 1.39 million barrels of Mesa 30 light crude to Cuba, in order to help make up for a gasoline shortage in the country.

comments may have been aimed at assuaging any concerns that global oil prices could undermine the company's asset sale goals. Though oil prices this year started out strong, rising crude output in the United States and



Parente // File Photo: Brazilian Government.

in other countries may have offset oil production-cutting measures taken by OPEC member states and other major oil producers to help stabilize global oil prices. Brent crude oil prices fell Tuesday to their lowest level in more than five months to \$50.46 a barrel, the lowest since Nov. 29, which was the day before OPEC agreed to cut its output.

RENEWABLES NEWS

Mexico Announces Timeline for Third Renewables Auction

The Mexican government has announced a timeline for its upcoming renewable energy auction, which is set to take place in Novem-

The auction will allow certain projects to sell to more power providers beyond state-run CFE.

ber, PV Magazine reported Tuesday. Technical bids are due in September. The auction will be the third of its kind since the national energy reform in 2013. This auction differs from the

previous two, however, in that certain projects will be able to sell energy to more power entities, instead of only being able to sell to state-owned electric utility Comisión Federal de Electricidad, or CFE. The terms of the auction will be published on May 8, according to a statement from the Mexican Secretariat of Energy and energy regulator CENACE. Bids

submitted to the CFE will be published on July 31, and bids submitted to other buyers will be published on Aug. 14. The total capacity will be set once the bids are published. The government plans to auction projects involving all clean energy technologies. Mexico aims to have 35 percent of its energy come from renewable sources by 2024.

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and private sector infrastructure projects at their current levels. If, however, the United States' shareholdings in these multilaterals are significantly reduced, the pricing of multilateral bonds and therefore the cost of funds to the end borrowers could increase. Second, there are other shareholders that are very likely to take up the voting shares the United States leaves on the table. Whether the United States is willing to give up its voting power, especially its veto power at the IDB, remains to be seen, and it may not be an easy decision for the Trump administration to knowingly give other countries more influence over initiatives in the region. Third, much of the financing for infrastructure and energy projects in the region comes from commercial lenders who rely on the multilaterals—less for their financing, but rather for their privileges and immunities to mitigate cross-border political and currency risks. And increasingly, there are new players such as equity and debt funds that will invest in development projects led by multilaterals. While infrastructure and energy projects that multilaterals support and that attract commercial sources of financing may not be severely impacted by the Trump administration's policies, the concessional windows of these institutions that provide resources to finance poverty reduction projects and programs, would likely be significantly impacted. Nevertheless, as occurred at the IDB's recent annual meeting in Asunción, the United States did not increase its share of the IDB's Multilateral Investment Fund's capital, but it did not prevent increases to the MIF's funding capacity by other countries either."

A Eugenia Mize and Brandon Roman, associates at Squire Patton Boggs in Washington: "It is likely that the current levels of funding for project finance in Latin America provided by multilateral development banks (MDBs), export credit agencies and other development financial institutions supported by the United States will be reduced. The Trump administration's 'America First' March 2017 budget calls for a reduction in funding for MDBs by \$650 million over the next three years. In addition, the budget proposes to eliminate funding for the Overseas Private Investment Corporation. Although many of these proposed cuts were not included in the 2017 spending bill, the White House is getting ready to move to discussions for 2018 funding. We should know more about the potential impact of President Trump's policies on project finance when he releases his budget on May 22. Additionally, the future of the Export-Import Bank could also impact project financing. Much like many other department and agency nominees, President Trump recently appointed a nominee to lead the Export-Import Bank who has previously been critical of the bank and had in fact called for its elimination. Additionally, the nominee, former Congressman Scott Garrett, will put Democrats—who generally have been supporters of the bank—in a difficult spot, as they fundamentally disagree with Mr. Garrett's policy stances; however, if they choose to oppose his nomination, the bank will continue to flounder without sufficient members to process loans over \$10 million. The United States holds a majority stake in most MDBs in order to secure veto power

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Chile's Renewable Capacity to Reach 5 GW by End of 2018

Chile's installed non-conventional renewable energy capacity is expected to reach 5 gigawatts by the end of 2018, up from its current 3.8 GW of installed capacity, Energy Minister Andrés Rebolledo said Wednesday, BNAmericas reported. Rebolledo added that Chile's energy sector attracted the most investment of any sector in the country for the second year in a row last year, garnering 30 percent of total investment in the country. He said that in order to sustain the high level of investment in the sector, it would be necessary for Chile to ensure that its support services for energy transmission remain up-to-date. Currently there are approximately 1,320 miles of transmission lines under construction in Chile, amounting to \$2.43 billion in investment. Rebolledo and other industry leaders have argued for the continued support of providers of transmission services, which he said are integral to mitigating the effects of variations in the level of energy production from wind and solar farms.

POLITICAL NEWS

Eight Convicted of Planning Attack at Rio Olympics

Eight Brazilians were convicted Thursday in federal court in the South American country for planning an attack at last month's Olympic Games in Rio de Janeiro, Reuters reported. The judge in the case sentenced the men, who were arrested in July, two weeks before the Games began, to between six and 15 years in prison. Authorities characterized the plotters as a group of amateurs loosely connected through social media. Though they were inspired by the Islamic State, they did not actually have contact with the terrorist organization, lacked funding and had not met in person, though

ADVISOR Q&A

What Does a Strong U.S. Dollar Mean for Latin America?

Q In January, U.S. President Donald Trump said the U.S. dollar was "too strong," a departure from the past practice of U.S. presidents, who tried to avoid making such statements and influencing currency markets. How is the U.S. dollar's relative strength affecting Latin American and Caribbean economies, and what would a weaker dollar mean for the region? Which countries are benefiting the most from the dollar's strength? How are dollarized economies, such as Ecuador, faring with a strong dollar? What are the biggest trends for the region this year with regard to foreign exchange?

A Uri Dadush, senior fellow at OCP Policy Center and non-resident scholar at Bruegel: "Viewed in isolation, a strong dollar is good for Latin American and Caribbean exporters and families that receive remittances, but bad for most consumers, as well as for governments and for companies with large unhedged dollar debt. The net effect varies across countries. I suspect that it is positive for Mexico, for example, because it exports much more than it imports from the United States and receives substantial remittances. However, the effect of the high dollar should not be looked at in isolation.

they did try to purchase guns, the wire service reported. The group's leader, Leonid el Kadre de Melo, 33, was convicted of recruitment with the intention of carrying out acts of terrorism and was sentenced to 15 years and 10 months in prison. The others were found guilty of criminal association and promoting a terrorist group and received sentences of six years and five months behind bars. De Melo was "without a shadow of a doubt the person who took over

Currently, the dollar is strong because the U.S. economy is recovering solidly, so this adds to the high dollar's positives for Mexico and for Latin America and the Caribbean more broadly. However, the dollar has appreciated against nearly all currencies, so for most Latin American and Caribbean

“Ecuador, which is dollarized, is the worst-hit by the high dollar.”

— Uri Dadush

countries, the positive competitive effects of a high dollar are much less than what meets the eye. Ecuador, which is dollarized, is the worst-hit by the high dollar, as it can only adjust to the collapse of the price of its oil exports by cutting spending, not by devaluing. Countries that allow their exchange rate to float and that have modest amounts of unhedged dollar debt are the least affected by the high dollar."

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

the role of leader among the accused," said the judge in the case, Marcos Josegrei da Silva, BBC News reported. A lawyer for de Melo said her client was on a hunger strike, and the other seven said they would appeal their sentences. In the sentencing, prosecutors presented evidence that included photos of the defendants posing with black Islamic State flags as well as a discussion on a chat page of how to produce homemade bombs, Reuters reported. The

NEWS BRIEFS

U.N. Employee Kidnapped During Security Council's Visit to Colombia

An employee of the United Nations has been kidnapped in Colombia by a member of a rebel group during a visit by U.N. Security Council ambassadors on Thursday to support of the country's recent peace deal between the government and the Revolutionary Armed Forces of Colombia, or FARC, rebel group, the Associated Press reported. The captors are part of a unit of the FARC that has refused to disarm as part of last year's peace deal, according to President Juan Manuel Santos' top aide for post-conflict planning, Rodrigo Pardo. A group of U.N. officials and Colombian authorities are attempting to negotiate the terms of the employee's release.

América Móvil Gets Approval for Spectrum Purchase From MVS

Mexican telecommunications company América Móvil, owned by billionaire Carlos Slim, received approval from telecoms regulator IFT to purchase the rights to 60 megahertz of spectrum from Grupo MVS, Reuters reported today, citing América Móvil. The company added it expects that the acquisition will be complete by the second quarter of this year. The additional 60 megahertz of spectrum will increase the company's offering of high-speed data services. The acquisition comes after Mexico approved reforms aimed at curbing the company's dominance in the telecoms market.

Starbucks Makes Deal to Expand Into Jamaica

Seattle-based Starbucks Corp. said Thursday that it had agreed with Caribbean Coffee Traders Ltd. to open Starbucks cafes in Jamaica. The consortium, led by Margaritaville Caribbean Group, will have the exclusive rights to own and operate Starbucks locations on the island.

U.S. Federal Bureau of Investigation had also monitored the group's activities, BBC News reported.

ECONOMIC NEWS

Mexican Antitrust Regulator Fines Pension Managers

Mexico's antitrust regulator, the Federal Competition Commission, on Thursday fined four pension fund management companies and 11 individuals for restricting competition in the market by making agreements to limit transfers of retirement accounts from one manager to another, The Wall Street Journal reported. The commission fined the firms and individuals a total of 1.1 billion pesos, or \$58 million for creating six bilateral agreements between November 2012 and June 2014 that were signed



Transfers are a fundamental source of competition."

— Federal Competition Commission

by pension fund managers, called Afores, which manage mandatory work retirement savings accounts. Profuturo GNP Afore, Afore Sura, Afore XXI Banorte and Principal Afore were the Afores fined, in addition to the 11 individuals. The Federal Competition Commission said the agreements put weekly caps on the number of transfers between two Afores, which was meant to lower the commercial cost involved in competing for accounts, but that the savings that resulted from the agreements did not translate into better commission for pension fund customers. "In a market where the investments and commissions charged by Afores are regulated, transfers are a fundamental source of competition," the commission said. "Agreeing to limit them reduces incentives to offer better service, and eliminates the possibility for workers to reward or punish their Afore based on their level of satisfaction." The agreements were monitored through emails

that were meant to obscure the identities of the Afores, the commission said.

U.S. Trade Deficit With Mexico at Nearly 10-Year High

The United States trade deficit with Mexico widened to \$7 billion in March, its highest level since November 2007, the U.S. Commerce Department said Thursday, The Wall Street Journal. The \$28.1 billion in goods shipped from Mexico into the United States was an all-time high. "The United States can no longer sustain this inflated trade deficit with our closest trading partners," Commerce Secretary Wilbur Ross said in a statement. The U.S. trade deficit with Mexico jumped 14 percent in this year's first quarter, an increase at least partially attributed to the drop in the value of the peso amid U.S. President Donald Trump's tough rhetoric about Mexico, which has rattled investors. Trump has repeatedly vowed to build a massive wall along the U.S.-Mexico border and force Mexico to pay for it and has also demanded a renegotiation or withdrawal from the North American Free Trade Agreement, or NAFTA. The peso's weakness against the dollar has helped to fuel demand in the United States for goods from Mexico. The Mexican currency is down more than 8 percent this year against the dollar. The strength of the dollar in relation to the peso has curbed demand in Mexico for U.S. imports.

Puerto Rico Declares Bankruptcy on Debt

Puerto Rico on Wednesday became the first U.S. state or territory to declare bankruptcy, the New York Times reported. The island is petitioning for relief from more than \$100 billion in debt and pension obligations under a federal law for insolvent territories, called Promesa, which contains some bankruptcy provisions. However, the law recognizes that Puerto Rico, a commonwealth of the United States, is not part of any state and must be treated like a sovereign nation.

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over major policy decisions. If the Trump administration significantly reduces funding to MDBs, the United States may lose its majority stake. Although MDBs that receive U.S. funding have historically been the primary sources of financing for energy projects in Latin America, some new institutions with strong Chinese participation, like the Asian Infrastructure Investment Bank, as well as China Development Bank and China Ex-Im Bank, have showed a strong commitment to finance projects in the region. It is too early to predict whether these institutions would be able to fill any gaps in availability of project financing caused by a potential reduction in funding by the United States."

A **Isabella Alcañiz, assistant professor in the Department of Government and Politics at the University of Maryland:** "It is not clear that the Trump administration will cut funding to multilateral lending institutions in a significant way, as this could entail a major loss of its shareholder power in crucial international financial institutions. What seems more likely, and there was some evidence of this in recent meetings between the Trump administration and the World Bank leadership, is that the United States will wield its considerable power (and exit threat) to increase the role of private-sector actors in multilateral lending institutions. However, if U.S. funding were to come to an end, this would put multilateral banks in a tight spot. Their lending portfolio would shrink, and especially banks' development aid would suffer. The continuity of programs like the World Bank's International Development Association that aids the poorest countries of the world, would be in peril. If the United States cuts funding, multilateral lending institutions would need other shareholders to increase their backing. At present, it seems China—a country already investing in Latin America's infrastructure and energy sector—would be a likely alternative. The United States withdrawing from its multilateral

financial commitments would be bad news, undoubtedly. But if China could serve to some extent as a substitute, perhaps there would be greater continuity than expected in project finance for Latin America."

A **Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorean minister of finance, member of Congress**

and central bank president: "For sectors of U.S. political opinion, multilaterals fall under the rubric of foreign aid and world government, both expressions of disdain. Today we go through another episode of acrid criticism and rejection, with an administration that shifts positions from the extremes of world involvement to retrenchment behind the walls of isolationism and self-sufficiency. Beyond politics, a related question is how much do institutions like the World Bank depend on U.S. government transfers to attend their loan portfolio demand? The answer is that the bulk of their funding comes from their own market operations and re-flow of funds from loans. The transfers are obviously non-marginal, but if the United States stops or cuts deeply into those contributions, it will send a clear signal to the rest of the world that a re-alignment in voting shares and in power and influence over the institutions is called for. As for the economics of energy investment in Latin America, the main sources of funding today come from international energy companies, often in association with local energy conglomerates. China is a major player, as are India and Russia to a lesser extent. They and others will occupy any vacuum left by the United States. A strategic role for multilateral participation would take the form of knowledge inputs and financial support to 1) improve the legal framework and institutions; 2) explore and activate the potential of new sources of energy and resource endowment; 3) plan infrastructure development; and 4) formulate the most appropriate commercial policies and growth models."

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