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FEATURED Q&A

Will Ecuador's New President Change Energy Policy?

Lenín Moreno formally took over as Ecuador's president on Wednesday. // Image: Ecuadorean Government.

Q **Rafael Correa concluded a decade in office as Ecuador's president when his former vice president, Lenín Moreno, succeeded him on Wednesday. During his presidency, Correa increased state control of the country's oil and gas sector, restructured state energy companies, struggled with the massive Eloy Alfaro Refinery of the Pacific project, and launched the failed Yasuní-ITT initiative, which would have had wealthier countries pay Ecuador in exchange for it forgoing the extraction of oil in the Yasuní National Park in order to preserve biodiversity and limit carbon emissions, among other measures. What will be Correa's legacy for the country's energy sector? How will Moreno seek to revitalize output in the sector, which has been hard-hit by low oil prices in recent years? What should Moreno prioritize for the energy sector, both in the short and long term?**

A **Ramiro Crespo, president of Analytica Securities in Quito:** "Correa's legacy is a disappointment for the energy sector. He assumed that high oil prices would continue indefinitely when he changed the production-sharing agreements to service contracts. He expelled first-rate international operators in favor of little-known companies that are now making a considerable profit despite low oil prices. Service contracts provide an incentive to overproduce and manage reserves poorly. The Yasuní-ITT project was a complete façade and resulted in the area neither being protected, nor the project being developed to plan. The country doesn't have the funds to invest, and low oil prices mean the fields will have to produce more than twice the amount planned in order to achieve the same returns. Correa fostered an

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TOP NEWS

OIL & GAS

China's CNPC Plans $2 Billion Investment in Peru

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OIL & GAS

Petrobras Issues $4 Billion in Debt

The bond sale was priced a week ago, which likely helped the Brazilian company lock in a favorable interest rate ahead of market turmoil over the past week that has sent its shares down 16 percent.

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RENEWABLES

Veolia to Build Waste-to-Energy Plant in Mexico

With a capacity twice that of the largest such facility in France, the unit will treat around 1.6 million metric tons of household waste a year and generate enough electricity per year to power Mexico City's subway system.

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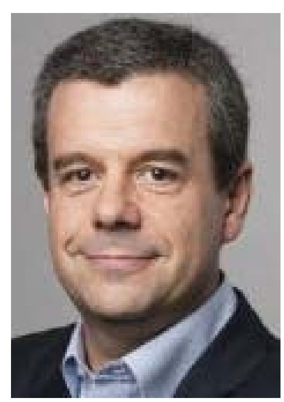


Gustavo Migues, Veolia's EVP for Latin America // File Photo: Veolia.

OIL & GAS SECTOR NEWS

China's CNPC Plans $2 Billion Investment in Peru Gas Block

State-run China National Petroleum Corporation, or CNPC, plans to invest $2 billion in an oil and natural gas block in southern Peru by 2023, Rafael Zoeger, the head of state energy agency Perupetro, said at a news conference on Tuesday, Reuters reported. CNPC's block 58 has some 3.9 trillion cubic feet of natural gas reserves, according to government data, enough to increase the Andean nation's total gas reserves by more than a quarter. The investments are slated to be made over the next six years, with plans to start drilling 60 wells this year. Zoeger added that Chilean oil and gas producer GeoPark would also likely present a plan to develop block 64 in northern Peru in coming weeks. In a bid to generate more revenue for the state, Perupetro is writing

Zoeger // File Photo: Peruvian Government.

up a new royalty plan for contracts based on productivity of wells and oil prices, according to Zoeger. China has become Peru's top trading partner, buying $7.4 billion of goods in 2015 or 19.6 percent of Peru's total exports, according to Peru Reports. Peruvian President Pedro Pablo Kuczynski chose to make China his first official visit abroad after being elected last year, where he met with the nation's political leaders and investors. In March, Kuczynski's government announced it may hold a bond issuance this year to pay for massive new energy sector infrastructure projects. [Editor's note: See related **Q&A** in the March 17 issue of the Energy Advisor.]

Petrobras Issues $4 Bn in Debt Ahead of Market Turmoil

Brazilian national oil company Petrobras said Monday it issued $4 billion in debt on international markets at the lowest interest average interest rate since 2013, Dow Jones reported. The bond sale was priced more than a week ago, which likely helped Petrobras to

Petrobras noted that the transaction took only one day and was oversubscribed by $20 billion.

lock in the favorable interest rate, according to analysts. Since then, allegations of corruption against Brazilian President Michel Temer have rocked markets and sent the benchmark Bovespa stock index down about 10 percent. As of Tuesday, Petrobras shares trading in São Paulo had fallen about 16 percent since from the week before, when the accusations became public. Despite the market turmoil, Petrobras noted that the transaction took only one day and was oversubscribed by $20 billion, with over 900 orders placed by some 400 investors. In related news, Petrobras said Monday it has started the process of selling 100 percent of its stake in the Juruá concession, located in the Brazilian state of Amazonas, as part of its two-year divestment plan. The company first discovered significant natural gas deposits in the field in 1978, but developing pipelines and infrastructure to transport supplies to market has only relatively recently become viable, The New York Times reported. The cost of borrowing for companies in Brazil could be on the rise, however. Political turmoil in recent weeks has concerned investors who had anticipated an economic recovery next year after a historic recession over the past two years. S&P Global Ratings said Monday it may cut Brazil's sovereign credit rating as the nation's fiscal adjustment is at risk of stalling amid surging political uncertainty following the allegations

NEWS BRIEFS

PDVSA Probes Large Oil Refinery Fire in Curaçao

An investigation will be launched into the cause of a large fire that occurred Saturday at the Isla oil refinery on Curaçao, the Curaçao Chronicle reported. No fatalities or injuries were reported, and the fire was brought under control within a day. The facility has been operating at about 50 percent of capacity. Venezuelan state oil company Petróleos de Venezuela, or PDVSA, operates the refinery under a lease agreement with the state. Last year, the government of Curaçao signed a preliminary agreement with China's Guangdong Zhenrong Energy to operate the refinery and invest $10 billion for upgrades.

OPEC Members Agree to Extend Oil Output Cuts

The Organization of the Petroleum Exporting Countries on Thursday decided to extend cuts in oil output by nine months to March 2018, Reuters reported. The move was strongly supported by Venezuela, a producer that has been perhaps the hardest hit member as a result of continued low global oil prices. "The most important issue is to regulate and stabilize the market ... and bring inventories down to their five-year average," Venezuela's oil minister, Nelson Martínez, told reporters. OPEC's cuts this year have helped push oil back above $50 per barrel, although that figure is half what it was during the recent energy boom.

Actis Buys Major Wind Parks in Brazil: Report

U.K.-based private equity firm Actis LLP has signed a deal to acquire all of Spain's Gestamp Renewables Corp.'s wind parks in Brazil, Bloomberg News reported Wednesday, citing unnamed sources. The move would make Actis the second-largest renewable energy company in the country. The 416 megawatts of wind parks involved in the deal could fetch more than $700 million, according to the report.

against Temer, Bloomberg News reported. The ratings company placed the grade on the country's debt on credit watch with negative implications, which means it may be downgraded in the next three months.

POWER SECTOR NEWS

Veolia to Build First Waste-to-Energy Plant in Mexico City

Paris-based Veolia announced Monday it had won Mexico City's public call for tenders to build and operate the first waste-to-energy plant in Latin America. With a capacity twice that of the largest such facility in France, the unit will treat around 1.6 million metric tons of household waste a year and generate 965,000 MWh of electricity per year to power Mexico City's subway system. The 30-year operation and maintenance contract will provide an estimated cumulative revenue of 886 million euros ($993 million) for Veolia. Each day, the inhabitants of Mexico City generate 13,000 metric tons of waste, two-thirds of which is landfilled, the company said. Once in operation, the plant will convert about one-third of Mexico City's household waste into energy. Construction is expected to take three years, with operations scheduled to start in 2020. Veolia currently employs 3,000 people in Mexico, where it treats 2.3 million metric tons of waste a year and provides 800,000 people with a waste collection service.

InterGen Confirms Plans to Exit Mexico

Massachusetts-based InterGen said Wednesday it is selling its business interests in Mexico and will launch the process "shortly." The company describes itself as one of the largest independent power producers in Mexico, with more than 2,200 megawatts in operation with six combined cycle gas turbine plants through-

RESEARCH ALERT

U.S.-Latin America Energy Investment: Proposals for Policy Engagement

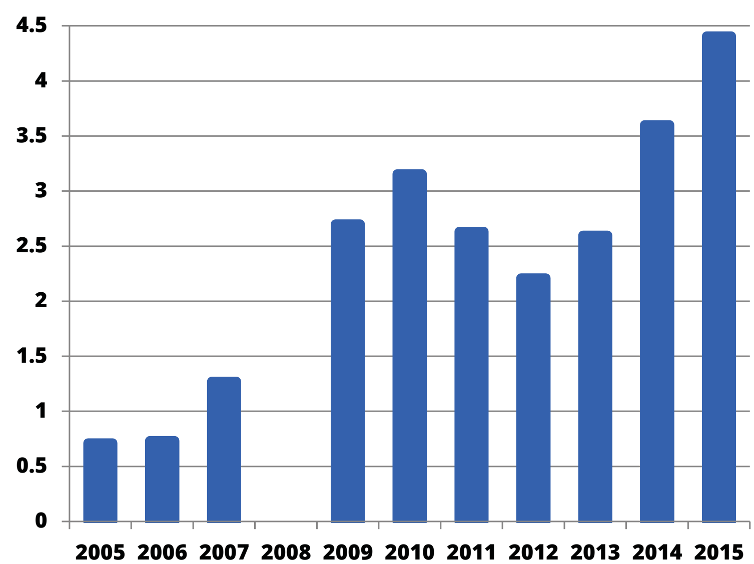
While the Trump administration's "America first" policies are aimed primarily at giving higher priority to national security and economic growth for the United States, the White House's approach will have consequences for energy relations with the rest of the hemisphere that should also be considered, according to a new report by the Inter-American Dialogue written by Lisa Viscidi and Rebecca O'Connor.

The report, **U.S.-Latin America Energy Investment: Proposals for Policy Engagement**, examines U.S. investment in the energy sector in Latin America and the Caribbean, the role it plays in enabling energy trade and broader bilateral cooperation and how the administration's policy agenda–which includes changes to trade terms, energy regulations and funding for energy-related programs–is likely to affect investment.

The United States is currently the largest source of foreign direct investment for Latin America and the Caribbean, representing 25.7 percent of FDI flows in 2015 and 52 percent in Mexico alone. The region is expected to see primary energy demand increase by 110 percent between 2000 and 2040, including a 183 percent rise in electricity demand and a 52 percent rise in oil demand.

Last week, Viscidi testified before the U.S. House of Representatives Subcommittee on the Western Hemisphere about energy opportunities in South America and trends affecting U.S. investment. **Read the full testimony and watch the hearing**.

U.S. FDI in Petroleum, Brazil (Billions of USD)



Source: U.S. Department of Commerce, Bureau of Economic Analysis. Note: Data unavailable for 2008.

out the country. The portfolio includes a new 220 MW combined cycle plant, San Luis de la Paz, and a 155 MW wind farm with partner IEnova, Energia Sierra Juarez, which reached commercial operations in 2015. InterGen also owns and operates three compression stations and one 65-kilometer gas pipeline in Mexico. Bank of America Merrill Lynch and Barclays have been retained as joint financial advisors to oversee the process. InterGen, which has operated in Mexico for 20 years, is jointly owned by the Ontario Teachers' Pension Plan and China Huaneng Group/Guangdong Yudean Group. Last month, the company confirmed that it is in talks with shareholders about changing its ownership structure.

POLITICAL NEWS

Moreno Sworn in as Ecuador's President

Leftist Lenín Moreno was sworn in Wednesday as Ecuador's president and delivered a conciliatory inauguration address, promising open dialogue with the press and his adversaries, a contrast from the combative approach of his predecessor, Rafael Correa, Reuters reported. "I am the president for all of you," Moreno said after taking the oath of office. "I owe you all a great debt and respect you all." Moreno promised to continue Correa's efforts to help the poor with free education, as well as health care and housing for low-income families and subsidies to wipe out extreme poverty. However, his speech also indicated a change of style. "All of us will form part of a deeply enriching national dialogue," said Moreno. The new president's softer tone contrasted with the last weeks under Correa, who was in office for a decade. Correa's government recently fined media outlets for not publishing a story it had wanted to be published, threatened to jail a journalist for messages he posted on Twitter and raided the offices of a polling firm, The Wall Street Journal reported. "Rafael Correa's last actions have been to leave a country even more polarized and prevent any kind of possibility for dialogue," César Ricaurte, executive director of Fundamedios, a Quito-based group that works for press freedom, told the newspaper. Despite his conciliatory tone, Moreno has expressed support for controversial legislation that critics say muzzles the press by allowing authorities to punish media outlets for unfavorable coverage. "I don't see a major reversal of policy with Moreno," said Sebastian Hurtado, president of Quito-based political-risk consulting firm Profitas. Moreno has also vowed to continue providing asylum to WikiLeaks founder Julian Assange, who has lived in Ecuador's embassy in London since 2012, while concerns remain about Assange possibly being extradited to

ADVISOR Q&A

Will Public Health in Venezuela Get Worse?

Q Public health indicators in crisis-wracked Venezuela declined dramatically last year, with infant mortality climbing 30 percent, maternal mortality rising 66 percent and malaria cases soaring 76 percent, the country's health ministry said May 9. The release of the statistics marked the first time since 2015 that the ministry has released such data. Will public health in Venezuela continue worsening, or is there reason for hope? What will it take to reverse the trend? Should the international community step up its offers of humanitarian aid to Venezuela, and if it does, will President Nicolás Maduro accept it? What are the long-term consequences of the decline in the country's public health?

A Hermes Florez, professor and director in the Division of Epidemiology at the University of Miami Miller School of Medicine and visiting professor at the University of Zulia in Maracaibo, Venezuela: "Given the deficiencies in hospital infrastructure maintenance and the lack of reliable information to respond promptly, it is likely that many public health indicators will continue to worsen. Similarly, the long-term impact that food shortages and limited access to medications will have on chronic and infectious diseases is concerning. Solidarity from the international community in providing a humanitarian aid channel will be paramount to addressing the current crisis. In March, after years of denying that Venezuela's health care system was collapsing, President Maduro delivered a speech demanding the United Nations' help with medications. Therefore, it is possible that in response to sustained pressures from international agencies and the Venezuelan people, he will finally accept this help. To respond to this health crisis and reverse these trends we need: 1) partnerships between Venezuela and international organizations with agreements to promote health care equity, address social determinants and rebuild infrastructure; 2) health policies to address access to medications and food, safety, supplies for health care facilities and workforce training; and 3) health care laws and regulations that will be enforced with appropriate accountability mechanisms. The release of information by the now former minister of health is a reason to remain hopeful. Until recently, most of us have relied on the data produced through the extraordinary efforts of organizations such as the Venezuelan Society of Public Health, which showed worsening trends on critical public health indicators. Moving beyond the 'government stage of denial' requires our prompt response and the commitment from many Venezuelan health care professionals."

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

NEWS BRIEFS

Ecuador's New President Names Oil, Electricity Ministers to Cabinet

Lenín Moreno, who took office Wednesday as Ecuador's president, has tapped former oil executive Carlos Pérez as oil minister. Pérez has spent much of his career as an engineer and later senior manager in the Americas at Houston-based Halliburton. Medardo Cadena was named electricity minister. He has worked at the ministry since November of last year serving as deputy minister, according to state news agency Andes.

Trump Seeks $140 Million in Cuts to Colombia Aid

U.S. President Donald Trump's proposed budget released Tuesday would cut $140 million in 2018 foreign aid to Colombia, according to analysis by Colombia Reports. The 36 percent reduction from this year's funding would bring U.S. support to Colombia to its lowest level since 1986, when measured in inflation-adjusted dollars. For the rest of Latin America, the proposed budget cuts aid by a similar percentage, from $1.83 billion to $1.20 billion. Rep. Eliot Engel (D-N.Y.) on Tuesday said he would not support the cuts in foreign aid. "The president's cruel and mean-spirited budget proposal is an embarrassment," he said in a statement.

Mexico Raises Growth Estimate for This Year

Mexico's Finance Ministry said Monday that it is raising its 2017 economic growth estimate slightly, to between 1.5 percent and 2.5 percent from its previous range of 1.3 percent to 2.3 percent, Reuters reported. Also on Monday, state statistics agency INEGI said GDP showed a real increase of 0.7 percent in the first quarter, with seasonally adjusted data. The figure marks the highest growth rate since the third quarter of 2015, according to Goldman Sachs.

the United States. The new president has also said he will lower taxes and on Tuesday named cabinet members that include executives with close ties to the business community.

Protest Turns Violent in Brasília, Temer Deploys Troops

Brazilian President Michel Temer on Wednesday deployed federal troops to restore order in the capital after an anti-government march that drew tens of thousands of people into the streets turned violent and protesters set fire to the iconic Agriculture Ministry building, state-run news service Agência Brasil reported. Some government buildings, including the Finance Ministry, were evacuated after masked protesters shattered windows, and paintings in the gallery of former ministers were reportedly destroyed. Rioters also vandalized bus stops,

Wednesday's protest in Brasília turned violent. // Photo: Agência Brasil.

portable toilets and public phone booths. Authorities said 49 people were hurt, eight of whom were police officers, and one protester was shot, but the injury wasn't life-threatening, The Wall Street Journal reported. The total crowd size was estimated at 35,000. Temer's order provides for troops to guard major buildings and maintain security through May 31. "A protest that was supposed to be peaceful deteriorated into violence, vandalism and disrespect," Defense Minister Raul Jungmann said Wednesday on national television. He said the armed forces would be used only to restore calm and not repress free expression. For more than a week, public pressure has been building for the unpopular Temer to resign amid graft allegations. Meanwhile, police officers in Rio de Janeiro came under attack Wednesday by demonstrators wielding slingshots in the city's downtown, The New York Times reported. Lawmakers in the state have been debating unpopular austerity measures.

ECONOMIC NEWS

Mexico, Canada Say NAFTA Talks Should Be Trilateral

Mexican and Canadian officials said Tuesday that negotiations to update the North American Free Trade Agreement with the United States should be trilateral as opposed negotiating separate bilateral pacts, The Wall Street Journal reported. "NAFTA is a trilateral agreement, and that has worked because it's a trilateral North American trading relationship," Canada's Minister for Foreign Affairs, Chrystia Freeland, said at an event in Mexico City. "NAFTA can be modernized only with the agreement of the three parties…and I am confident that that will be how we go," she added. Mexican officials said at the event that separate bilateral agreements would be impractical, considering the complex integration of supply chains between the three nations. U.S. Trade Representative Robert Lighthizer, who last Thursday formally notified the U.S. Congress that NAFTA would be renegotiated in 90 days, has said the United States hopes to maintain the existing structure of the agreement, although many parts of the negotiation will be conducted bilaterally. Canada's Freeland acknowledged that some issues within the region are bilateral by nature, such as U.S. disputes with Canada over lumber and with Mexico over sugar. Meanwhile, Canada has mounted an "information campaign" on NAFTA's benefits targeting U.S. President Donald Trump and his cabinet, as well as Congress and state and local governments, the CBC reported Tuesday. Canadian Prime Minister Justin Trudeau has assigned 11 cabinet ministers to key U.S. states to make the case for the trade deal. On a visit to Mexico last Friday, Germany's foreign minister also voiced support for the NAFTA, saying it has brought benefits to all three signatory countries, Reuters reported.

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environment where corruption ran wild. The Petroecuador scandals resulted in hundreds of millions of dollars leaving the country through suspect contracts. High costs, too many employees and little strategic direction have resulted in debts to suppliers of more than $2 billion. Now the foreign debt-to-GDP ratio is ludicrously high, and the country's future shipments of oil have been sold to China in opaque deals. There is much doubt that Moreno will bring significant change if Correa continues as a shadow president. However, there is hope with the appointment of Halliburton veteran Carlos Pérez as the new minister of hydrocarbons. The country's priorities should be to leave OPEC and increase production in an environmentally conscious fashion, and to list the national oil company's shares locally and abroad to force them to be more competitive, accountable and transparent, as there is currently no independent auditing firm that is willing to give an audit opinion for these companies."

A **Mario Alejandro Flor, partner at Bustamante & Bustamante in Quito, Ecuador:** "Rafael Correa will be remembered for having invested in renewable energy sources, particularly in hydroelectricity. Thanks to the investment made in the past decade, more than 80 percent of the energy the country consumes comes from hydroelectric power. This means cheaper energy, less environmental contamination (as compared to thermoelectric generation), and energy exported to neighboring countries. Nonetheless, and specifically with regard to oil matters, President Lenín Moreno has the challenge of improving confidence in the country for the big global players and making Ecuador attractive for huge projects. For this purpose, he might have to analyze what type of upstream contract with private oil companies is most convenient for the interests of both parties. Moreno could face certain budgetary restraints. Petroleum pre-sales, OPEC agreements and keeping domestic production up are significant issues that the new president will have to bear in mind. Furthermore, in light of the somewhat bleak outlook for the petroleum industry, Moreno will focus on other areas of natural resources extraction. Certainly, mining will be a prevailing option for the new government's development strategies."

A **Jose L. Valera, partner at Mayer Brown:** "Correa's legacy for Ecuador's energy sector is poor. When oil prices were high, he strong-armed all the foreign oil companies into giving up their profit-sharing contracts and signing new contracts under which they would become service providers. Under the service arrangements, all production belongs to the state, and the company is paid a fixed fee for unit of production delivered to the state plus reimbursement of certain costs. Correa sought to keep all the upside of rising prices for the state. He put Ecuador firmly on the side of resource nationalism and state control in the oil sector. Correa made a choice: instead of ensuring through competitive contracts that Ecuador's population is adequately and efficiently supplied, and that exportable surpluses increase, he instead opted to maximize short-term rent to spend more while completely disregarding the long-term development of a diversified, stable and strong economy. Ecuador's oil production has been stagnant for many years, and as a result of increased domestic demand, the exportable surpluses are ever lower. This has been devastating since the drop in oil prices for a country that relies heavily on revenue from crude oil exports. Ecuador is not currently creating the conditions necessary for the private sector to help meet its challenges. Moreno has all the legal tools necessary to revitalize output in the sector if he implements pragmatic policies instead of being driven by ideology and short-term opportunism. Many countries are attracting capital for exploration and development of their hydrocarbon resources. All Ecuador needs is changed policies. Oil is in the ground, waiting to be extracted."

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