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FEATURED Q&A

Can Petrobras Maintain Safety Amid Cost Cuts?



Petrobras CEO Pedro Parente has helped lead an aggressive divestment plan as the company looks to pay off its staggering debt. // File Photo: Brazilian Government.

Q Three workers of Brazilian state-run oil company Petrobras were killed after sustaining injuries following an explosion June 9 at an offshore drill rig. The incident has raised concerns over whether the firm is able to meet safety standards as it looks to cut costs and pay off some of its heavy debt load, and a director at the national oil workers' federation said the blast was a result of the workforce reduction Petrobras has been implementing. Are Petrobras' money-saving measures putting workers at risk? What can the company do to avoid accidents in the future? How well managed is Petrobras today, and what does it need to do to achieve status as a world-class oil and gas company in the future?

A Mark S. Langevin, director of the Brazil Initiative and research professor at the Elliott School of International Affairs at The George Washington University: "The fatal accident on the Norbe VIII drilling vessel during the early morning hours of June 9 comes in the wake of the increasing decentralization of the 'Petrobras system,' including the outsourcing of the workforce. This process, unleashed by Petrobras' aggressive divestment campaign, challenges managerial coordination across firms and contractors that are functionally interdependent throughout the exploration, production and refining of Brazil's notable offshore oil and gas reserves. The Norbe VII is owned by Odebrecht Óleo & Gás and contracted by Petrobras, but many of the workers on this vessel are hired as independent contractors through intermediary firms, including the three victims of the blast on board (according to SindiPetro NF). The Petroleum Workers Federation (known

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TOP NEWS

OIL & GAS

Carso Enters July 12 Mexico Gas Auction

Mexico's National Hydrocarbons Commission is putting 14 fields of mostly "wet gas" in the Burgos Basin up for auction next month. The government estimates the next tender will attract some \$1 billion in investment.

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RENEWABLES

Brazil to See Solar Capacity Reach 1 GW This Year

Brazil is expected to reach more than 1 gigawatt of solar capacity this year, as photovoltaic projects from the three auctions held between 2013 and 2015 begin to come online.

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OIL & GAS

Perry Softens Tone Ahead of NAFTA Energy Talks

U.S. Energy Secretary Rick Perry's conciliatory tone stands in contrast to President Donald Trump's harsh criticisms of NAFTA in the past.

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Perry // File Photo: U.S. Department of Energy.

OIL & GAS SECTOR NEWS

Carso Enters July 12 Mexico Gas Auction

Carso Oil & Gas, which is owned by Mexican billionaire Carlos Slim, has registered to compete in the next tender of Round Two of the country's oil and gas auctions scheduled July 12, Forbes reported Monday. Mexico's National Hydrocarbons Commission is putting 14 fields of mostly "wet gas" in the Burgos Basin up for auction next month, when the government estimates that it will attract some \$1 billion in investment. Petrobal, which is controlled by Mexican billionaire Alberto Baillères, is also pre-qualified for the bidding, as well as 18 other



Slim // File Photo: www.carlosslim.com.

companies from Mexico, the United States, Colombia, Uruguay and China. Both Carso Oil & Gas and Petrobal were created after Mexico's energy reform in 2013, which opened the oil and gas sector to exploration and production by domestic and international companies, ending state-run Pemex's monopoly. Carso enrolled in the earlier Round One auctions for shallow-water production-sharing contracts but failed to win any contracts, although companies owned or controlled by Slim have supplied drilling and oil-platform services to Pemex.

Perry Softens Tone Ahead of NAFTA Energy Talks

U.S. Energy Secretary Rick Perry believes the upcoming renegotiation of the North American Free Trade Agreement presents an opportunity

to create a "North American energy strategy" with Mexico and Canada, referring to the upcoming talks as a "massage" of the 1994 trade agreement, Bloomberg reported Monday. "That relationship I don't think has ever been more important than it is today, particularly from an energy perspective," Perry said, emphasizing

North American oil and gas markets are already highly integrated.

his relationship with his Canadian and Mexican counterparts. "Energy is going to play a very important role." Perry's conciliatory tone stands in contrast to President Donald Trump's harsh criticisms of NAFTA in the past, which he has called the "worst trade deal" ever signed by the United States. More recent comments from the White House, however, indicate that Trump may be softening his stance on the agreement as well. "Energy is an ideal area for the Trump administration to move forward with the relationship," Duncan Wood, director of the Mexico Institute at the Woodrow Wilson Center, told the news outlet. North American energy markets are already highly integrated with regard to oil and gas, though they are not as advanced with regard to electricity, Wood noted. In 2016, the United States exported 2.1 trillion cubic feet of natural gas to Canada and Mexico, and imported 2.9 trillion cubic feet from the countries, according to the U.S. Energy Information Administration. The United States exported 1.6 billion barrels of crude oil and petroleum products to Canada and Mexico last year, while importing 1.4 billion barrels from the two countries.

YPF Expects Production Costs at Vaca Muerta to Fall

Longer horizontal wells and improved technology have helped lower production costs at Argentina's Vaca Muerta shale play, state-run

NEWS BRIEFS

Suriname Awards New Oil and Gas Contracts

A consortium made up of U.S.-based Exxon Mobil and Hess along with Norway's Statoil has been awarded an oil and gas production-sharing contract for Suriname's offshore Block 59 by the country's oil industry oversight agency, Staatsolie, Zaks reported Wednesday. Staatsolie has also reached an agreement with Statoil over Block 60. The companies are expected to sign their respective agreements by the second week of July.

Petrobras Should Cut Bolivia Gas Imports: Study

A new study suggests Brazilian national oil company Petrobras should cut the maximum amount of natural gas it buys from neighboring Bolivia in half in an effort to encourage domestic importers and distributors to enter the market, Reuters reported Tuesday. The study by the Mines and Energy Ministry envisions a cap of purchases from Bolivia at 16 million cubic meters a day of gas. Petrobras is the exclusive Brazilian distributor of Bolivian gas, according to the report.

Pan-American Energy to Invest \$1.2 billion in Argentina This Year

Argentine energy company Pan-American Energy is planning to invest some \$1.2 billion in the country this year, a spokesman from the company said Tuesday, Reuters reported. The amount has fallen slightly from the \$1.4 billion in investment the company announced in 2016 for this year. About \$400 million of the sum will be designated for oil and gas exploration in the Vaca Muerta shale play. Argentine state-run oil company YPF in February promised to invest \$2.3 billion in Vaca Muerta, and in April Argentine Energy Minister Juan José Aranguren said between \$6 billion and \$8 billion in investment had been confirmed for Vaca Muerta.

energy company YPF said, adding that updated infrastructure is still needed in order to make it more competitive, Reuters reported June 23. Pablo Bizzotto, an executive manager at YPF's unconventional unit, said the break-even price per barrel of oil equivalent is \$43 and falling, and that development costs are \$12.90 per

Logistics account for 50 percent of the cost for sand for hydraulic fracturing at Vaca Muerta.

barrel and are expected to fall to \$10 per barrel next year. "Ten dollars is world-class compared with the Permian" shale field in Texas, Bizzotto said. "If we can get there in Vaca Muerta, we're competitive." Though the play is thought to have some of the world's largest shale oil and gas reserves, only two of the 19 concessions have moved forward from the pilot stage to production stage, amid investor concerns of high labor costs and other logistical difficulties at the remote Neuquen province in Argentina's Patagonia region. The government plans to invest \$1.2 billion to renovate the more than 800 miles of railroad tracks connecting ports in Buenos Aires and Bahía Blanca to Anelo, the town closest to the shale play. "[The renovations] are much-needed," Bizzotto said. "It will lower logistical costs for things that should not be transported via truck, like sand and tubes."

RENEWABLES NEWS

Brazil to See Solar Capacity Reach 1 GW This Year

Brazil is expected to reach more than 1 gigawatt of solar capacity this year, as photovoltaic projects from the three auctions between 2013 and 2015 begin to come online, Brazil's solar association ABsolar said, PV-Tech reported Thursday. The majority of project completions

will come from large-scale plants that were auctioned by Pernambuco State in 2013. Meantime, the industry is awaiting the publication of the Ministry of Mines and Energy's 10-year energy demand forecast, which will help determine whether more energy auctions will be held this year or in the near future. Last year, the Mining and Energy Ministry canceled the only wind and solar auction planned for the year due to a drop in projected energy demand. It takes at least three months from the notification of an auction for the auction to take place, in order to give government agencies, potential bidders and the market enough time to prepare for the tender. It is not clear which energy sources would be included in the next auction.

FEATURED Q&A / Continued from page 1

as FUP) claims that the accident is the result of the predictable consequences of coupling a measurable workforce reduction with the outsourcing of many critical functions within the Petrobras system. But the company does not seem willing to discuss the FUP's concerns under the terms of the collective bargaining agreement. At this point, it does not seem apparent that the current man-

“At this point, it does not seem apparent that the current management team is committed to improving workplace safety...”

— Mark S. Langevin

agement team is committed to improving workplace safety and incorporating workers' representatives within discussions aimed at improving coordination and safety throughout the evolving Petrobras system. If Petrobras chooses to relieve itself of debt by ignoring the systemic and inter-firm coordination challenges while also undermining workplace safety, then expect the company's management and CEO, Pedro Parente, to

Peru Installs 6,000 Solar Panels This Year in Rural Areas

The Peruvian Ministry of Energy and Mines has installed 6,000 solar panels in rural areas since March of this year as part of a project with local power firm Ergon Peru, PV-Tech reported Tuesday. The investment agreement will help provide electricity to some 27,000 people in the Amazon region, San Martín, Huánuco, Huanavelica and Puno. The \$300 million program plans to install 194,000 solar panels by July 2019, providing electricity for 850,00 people.

become both the targets of FUP mobilizations (even strikes) as well as prominent campaign issues during the run up to the next round of presidential and congressional elections in 2018."

Alexis Arthur, independent energy analyst: "The tragic accident in Brazil is lamentable but difficult to attribute to the recent cost cuts at Petrobras. Instead, it highlights the ongoing risks associated with the highly complex nature of deepwater drilling—perhaps the ultimate in high-risk, high-reward upstream activities. Setting and enforcing safety standards is critical throughout the entire oil and gas project cycle. Neglect can result in significant financial losses, endanger lives and have serious environmental consequences. This is the responsibility of the Brazilian government and relevant agencies, and should not be limited to Petrobras-run operations. As the company continues to sell off its assets to address some of its cash flow problems, it is up to the regulators to ensure that safety standards are a critical part of future operations. The experiences in Brazil should also be a warning to Mexico—experts have repeatedly stressed the importance of safety standards as the country opens its side of

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POLITICAL NEWS

Leader of Brazil's Ruling Party in Senate Steps Down

Brazilian senator Renan Calheiros on Wednesday announced he will no longer be the leader of the ruling PMDB party in the upper chamber, Reuters reported. Calheiros said he would not tolerate what he called President Michel Temer's "cowardly posture" in the face of corruption charges, Folha de S.Paulo reported. In a speech that lasted 15 minutes, Calheiros said he was freeing himself from "a heavy and unjust anchor." Analysts suggest the move is likely positive for proponents of a major labor reform bill going through Congress. A former Senate president, Calheiros has long opposed Temer's labor bill, and his decision to step down suggests he lacks support from a majority of fellow PMDB senators as the legislation moves through Congress, according to the report. A senate committee late yesterday passed key parts of the labor reform, Folha de S.Paulo reported. In related news, the driver of a car on Wednesday rammed the gate of the Brazilian president's palace in Brasília, BBC News reported. Security forces fired warning shots and the driver, who is underage, has been detained, a government statement said. Deep austerity measures put in place by the widely unpopular Temer administration have led to cuts in services, including the issuance of passports. In a statement late on Tuesday, the federal police said their decision to stop issuing new passports "stems from a dearth of funds earmarked for the activities of migration control and the issuance of travel documents."

Venezuela Supreme Court Bars Attorney General From Travel

Venezuela's Supreme Court on Wednesday banned Attorney General Luisa Ortega from leaving the country and has frozen her assets

ahead of a pre-trial hearing scheduled for July 4, CNN reported. President Nicolás Maduro called for the hearing to determine if Ortega committed unspecified "grave errors while in her position." Some media reports suggest the charges are related to the appointment of judges. Once considered an ally, Ortega has become the most vocal critic of Maduro's ad-

ADVISOR Q&A

Is a TPP Without the U.S. a Better Deal for Latin America?

Q Officials from the 11 countries that are still actively participating in the Trans-Pacific Partnership are scheduled to meet next month in Japan, as they forge ahead without the United States following President Donald Trump's withdrawal from the trade accord. How viable is the TPP without U.S. participation? Without the United States, how good of a deal is the pact for Canada, Chile, Mexico and Peru—the Western Hemisphere countries involved? Do any of the signatories stand to benefit more without the United States as part of the accord?

A Arturo Sarukhan, former ambassador of Mexico to the United States: "U.S. participation, if not leadership, has been—and is—indispensable to international cooperation in areas like global trade. But Trump's isolationism now disrupts this paradigm. In many ways, the TPP was a coalition of the free trade-willing, more about which nations wanted in to help build a 21st century, rules-based trading system, than about excluding others. Today, there is clearly a case to move ahead on a TPP, minus one. In part, because it makes sense to conclude what was started by the original P4 group in 2005, but also because there has to be a geopolitical and diplomatic challenge to the Trump administration's 'my way or the highway' intent to replace inclusive multilateral agreements with

one-on-one negotiations on terms essentially dictated by Washington. Moreover, a TPP11 could be a boon for the four remaining American signatories—Canada, Mexico, Peru and Chile—as they would avoid (if existing bilateral agreements remain unchanged) erosion of existing preferences in the U.S. market. They would also benefit from not having to compete with U.S. suppliers, as they would have had to under the original TPP framework, and a TPP11 could help in further deepening the Pacific Alliance, of which three out of the four are TPP nations. Nonetheless, the automotive sector and its rules of origin (ROO) could become a thorny issue going forward for Canada and Mexico in implementing a TPP11. The TPP featured a significant lowering of the overall amount of regional value content required to qualify for TPP preferences compared to the NAFTA standard, a measure agreed to in bilateral side-negotiations between the United States and Japan, and behind Ottawa and Mexico City's backs. For Canada and Mexico, the TPP ratification process would probably run concurrently with the renegotiation of the NAFTA, where ROO for the automotive sector will be a critical issue."

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

ministration within the government. Earlier this week, she criticized a Supreme Court decision to transfer some powers from the Attorney General to the country's Ombudsman's office. The decisions of the court "are not democratic, they dismantle the state," Ortega said, El Universal reported. In related news, Venezuelan authorities on Wednesday announced they had

NEWS BRIEFS

Public Approval of Mexico's Cabinet Falls to New Low: Poll

Seventy-four percent of Mexicans disapprove of the performance of President Enrique Peña Nieto's cabinet, EFE reported Wednesday, citing a survey released this month by GEA-ISA. The cabinet's approval rating has fallen to its lowest level of popularity since the president's six-year term began at the end of 2012. When asked in the survey, How much do you believe President Enrique Peña Nieto?, only 3 percent responded, "a lot," while 58 percent responded, "not at all."

Ecuador Opposition Files Petition Against V.P. Glas

Opposition legislators in Ecuador on Wednesday called for political trial of Vice President Jorge Glas, El Universo reported. Fifty-nine legislators signed onto the petition against Glas, who they accuse of not preventing acts of corruption. Glas was vice president under former president Rafael Correa between 2013 and 2017 and now serves with President Lenín Moreno. He has been implicated in a corruption scheme involving millions of dollars in the oil sector and in the case of the Brazilian construction company Odebrecht, although a formal complaint has not been filed in court and he denies wrongdoing.

Peru Can Surpass 3% Growth Forecast: Zavala

Peru's new Economy and Finance Minister, Fernando Zavala, on Monday projected a better economic performance in the second half of the year as investments in programs such as housing kick in, state news agency Andina reported. President Pedro Pablo Kuczynski considers their current 3 percent growth forecast for 2017 to be mediocre, he said. "We want to grow more, and we do believe we need to take measures to do so," Zavala said.

found the abandoned police helicopter used in a grenade attack on the Supreme Court building on Tuesday. The man authorities say piloted the aircraft, Oscar Pérez, has not been



Ortega // File Photo: Government of Ecuador.

found. Rumors circulated that the government itself was behind the attack, designed as a ruse to justify a military crackdown. Meanwhile, opposition leaders have called for a march on the National Electoral Council headquarters in Caracas today to mark 90 days of protests. More than 70 people, both critics and supporters of Maduro, have died from injuries related to the protests.

ECONOMIC NEWS

Peru Slates \$15 Billion for Water, Sewage Services by 2021

Peru's government plans to invest more than \$15 billion in infrastructure linked to water and sewage services between this year and 2021, state news agency Andina reported Monday. The country's National Sanitation Plan for 2017 to 2021 is expected to bring 4 million people drinking water and 7.7 million people sewage services for the first time. President Pedro Pablo Kuczynski campaigned on a pledge to bring clean drinking water to all Peruvians. But natural disasters his first full year in office have ravaged large parts of the country. Two months after millions of Peruvians were affected by floods, many are still living in temporary shelters, according to relief agency Oxfam, which estimates that 31,000 people displaced by flooding are still living in temporary tents or under plastic sheets.

U.S. Halts Brazilian Beef Imports

The U.S. Department of Agriculture on June 22 immediately halted all beef imports from Brazil, a move that came three months after the South American country's meat industry was shaken by a bribery scandal, the Associated Press reported. In a statement, U.S. Agriculture Secretary Sonny Purdue said that U.S. inspectors have refused entry to approximately 1.9 million pounds of fresh beef products from Brazil since March. That amounts to approximately 11 percent of Brazil's beef exports to the United States. "That figure is substantially higher than the rejection rate of 1 percent of shipments from the rest of the world," Purdue said in a statement. Beef imports from Brazil will remain halted until the Brazilian agricultural ministry takes corrective measures, the statement added. Purdue's statement did not specify what actions should be taken. The statement added that Brazil had already addressed U.S. inspectors' concerns by banning the shipment of beef from five facilities, but the U.S. Department of Agriculture said that action was insufficient. The office of Brazilian President Michel Temer and Brazil-based JBS, the world's largest meatpacking company, declined to comment to the AP. Calls from the wire service to Brazil's agriculture ministry were not immediately returned. In March, authorities in Brazil announced they were investigating a scandal in which inspectors had accepted bribes in order to allow expired meat to enter the market. Several importers, including China, suspended purchases of Brazilian meat, but then resumed the imports after receiving assurances from Brazilian officials. In 2016, Brazil was the world's largest producer of beef and veal and among the world's leading exporters, according to the U.S. Department of Agriculture. Brazil also exports a large amount of chicken and pork. The United States produces a large quantity of beef for internal consumption and is not among the largest importers of Brazilian beef. However, the U.S. suspension is expected to increase scrutiny on Brazil's meat industry. [Editor's note: See related [Q&A](#) in the April 7 issue of the Latin America Advisor.]

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the Gulf of Mexico to oil and gas drilling. And the importance of consistent and rigorous regulatory oversight, as the Deepwater Horizon accident seven years ago brought to light. What the BP oil spill in 2011 also taught us is the importance of safety standards in environmental protection. These factors, combined with low oil prices and global climate action that calls for a massive reduction in fossil fuel production, should perhaps make us question whether the high risks are still worth it."

A Luana Furtado, analyst at the Brazilian Centre for Infrastructure (CBIE): "The accident on June 9 took place at an offshore drill rig operated by Odebrecht Oil and Gas, and contracted by Petrobras. Therefore, the recent accident should not be seen as related to the company's cost-reduction plan. By the way, that plan is only one step among many others adopted toward its recovery, after a couple of turbulent years. Maintaining a satisfactory level of operational safety should be one of the criteria for its resurgence in oil market. Despite the fact that the high level of risk is inherent in such a complex technical business as deepwater oil and gas exploration and production, accident precautions should always be in

compliance with all safety rules and should constantly be monitored and reviewed by the competent agency. What we can take for granted is that Petrobras' policy change

“It is up to the regulators to ensure that safety standards are a critical part of future operations.”

— Alexis Arthur

is recovering its credibility in the market by showing satisfactory results. The company's latest financial results showed that its higher profit is a combination of improved operating income and lower capex. So, the improvement in Petrobras' results is a consequence of increasing administrative efficiency and corporate discipline, translated into better operational and financial performance, which are fundamental to leveraging investor's confidence in the company."

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

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