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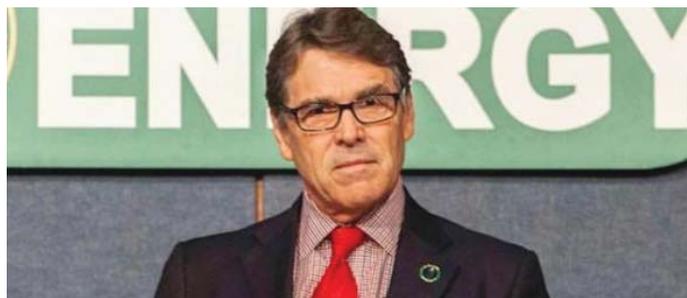
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## FEATURED Q&A

# Will NAFTA Talks Lead to a New Energy Strategy?



Upcoming NAFTA negotiations present the United States a unique opportunity to develop a "North American energy strategy," U.S. Energy Secretary Rick Perry said last month. // File Photo: U.S. State Department.

**Q U.S. Energy Secretary Rick Perry in late June said he 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. His statement suggests a softer U.S. approach to renegotiating the agreement, which President Donald Trump previously called the "worst trade deal" ever signed by the United States. What is the outlook for North American energy integration amid the backdrop of NAFTA renegotiations? Which sub-sectors within the energy sector show the most promise for further integration among the United States, Mexico and Canada? What's most at stake for each of the countries in terms of energy, and how will the NAFTA talks on the issue likely play out?**

**A Jeremy M. Martin, vice president for energy and sustainability at the Institute of the Americas:** "Fortunately, the rhetoric has become more tempered, including a more measured approach to NAFTA and renegotiations. Across all three countries, there is a level of maturity, extensiveness and cooperation that is underpinned by flourishing energy trade and commercial engagement. The United States and Canada have long been highly integrated, while Mexico and the United States have grown increasingly interconnected. If these trends continue, North America is well-positioned as a global energy power, which will have important effects on the region's economic competitiveness. Most notable in the last several years have been the developments surrounding natural gas. U.S. pipeline exports to Mexico more than doubled since 2013, increasing by 29 percent to a record 1,357

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## TODAY'S NEWS

### BUSINESS

## Cemex Posts 41% Rise in Q2 Profit

The Mexican cement and building materials company posted profit of \$289 million for the second quarter. Cemex said the increase was due to lower expenses and an increase in consolidated net sales.

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### POLITICAL

## Bomb Damages Door at Catholic Bishops' Office in Mexico City

The device exploded at the headquarters of Mexico's Roman Catholic Council of Bishops. No one was injured.

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### POLITICAL

## Two-Day Strike Begins in Venezuela

The country's opposition called the strike in protest of President Nicolás Maduro's plan to elect a "constituent assembly" on Sunday that will have the power to rewrite the country's Constitution and bypass the opposition-controlled National Assembly.

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Maduro // File Photo: Venezuelan Government.

## POLITICAL NEWS

## Two-Day Strike Begins in Venezuela

A nationwide strike, called by the opposition, began this morning in Venezuela in protest of the upcoming vote on Sunday to elect members of a "constituent assembly" to rewrite the country's Constitution, CNN reported. Opponents of President Nicolás Maduro are calling on Venezuelans to remain at home in protest of the planned vote, which Maduro has pushed. The president has said the country needs a new Constitution in order to end its political

“The call we've made for the coming days will require each of you to ask yourselves what role you have to play in Venezuela's rescue.”

— Freddy Guevara

and economic crises, while his opponents see his move as an effort to increase his power. “The call we've made for the coming days will require each of you to ask yourselves what role you have to play in Venezuela's rescue,” said opposition leader Freddy Guevara, the vice president of the National Assembly. In a news conference, opposition leaders said the two-day strike, which was scheduled to begin today at 6 a.m., is an effort to force Maduro to abandon his plan to rewrite the Constitution, which was put in place in 1999 early during the government of Maduro's late predecessor and mentor, Hugo Chávez. Venezuela has been beset by numerous economic problems, including shortages of food, medicine and medical supplies. Deadly protests have raged since early April, just after the country's Supreme Court dissolved the opposition-controlled legislature in late March. The court reversed its decision three days later, but the protests have continued amid claims from the opposition

that the country was becoming a dictatorship. If established, in addition to having the power to change the Constitution, the constituent assembly will be able to bypass the National Assembly, BBC News reported. Ahead of Sunday's vote, Venezuelans have been crossing the border into Colombia by the thousands, some to seek refuge and others to stock up on supplies before returning to Venezuela, where goods are in short supply, Agence-France Presse reported. There are also concerns that the United States could follow through with President Donald Trump's threat to impose sanctions on Venezuela if the government proceeds with Sunday's vote, which could worsen the South American country's economic problems.

## BUSINESS NEWS

## Cemex Posts 41% Increase in Profit for Second Quarter

Mexican cement and building materials company Cemex posted a 41 percent increase in net income of \$289 million during the second quarter of this year as compared to the same period last year, the company, led by CEO Fernando A. González, said in a statement today. Net income reached \$626 million for the first half of



González // File Photo: Cemex.

this year, the company's highest profit for the period since 2008. The increase was due to an 8 percent decrease in financial expenses and a 2 percent increase in consolidated net sales to \$3.6 billion during the second quarter of this year, The Wall Street Journal reported. Operating cash flow measured by earnings before

## NEWS BRIEFS

## Bomb Damages Door at Roman Catholic Bishops' Office in Mexico City

A bomb exploded at the headquarters of Mexico's Roman Catholic Council of Bishops early Tuesday, damaging a door but causing no injuries, church officials said, the Associated Press reported. The homemade device was left outside the building at around 2 a.m., and video footage shows the explosion blowing the door open. There was no immediate information on possible suspects or motive in the incident.

## Peru Eyes Larger Role for Private Sector in Water Management

The Peruvian government wants the private sector to play a larger role in water management as the government enacts reforms that are aimed at giving more people across Peru access to running water by 2021, Housing Minister Edmer Trujillo said Tuesday, Reuters reported. Trujillo said reaching the goal of providing basic water services to millions of Peruvians who lack them will require some 50 billion soles, or approximately \$15 billion, in investment in water infrastructure projects. He stressed that the water utilities would remain state-owned even if the private sector increased its involvement in water infrastructure projects.

## Enel Green Power Begins Operations at Brazil Wind Farm

The Brazil unit of Italy's Enel, Enel Green Power Brasil Participações, has begun commercial operations at its 90-megawatt wind farm in Brazil, ReNews reported Tuesday. The Cristalândia wind farm is located in the Brumado, Rio de Contas and Dom Basílio municipalities in Bahia State. The project is expected to generate approximately 350 gigawatt hours of electricity per year.

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billion cubic feet (Bcf) in 2016. Meanwhile, energy exchange between Canada and the United States also surged ahead as more than 97 percent of U.S. natural gas imports come by pipeline from Canada; at the same time, Canadian imports increased by 11 percent to 2,912 Bcf in 2016. At the same time, U.S. pipeline exports to Canada increased by 10 percent to 771 Bcf. But the growth in oil and refined product trade as well as the march of renewables also bear noting. Indeed, the United States now exports just under 1 million barrels a day of crude oil and petroleum products to Mexico, hugely altering what had long been one-way trade in oil. On renewables, the energy ministers of Mexico, the United States and Canada signed the Clean Energy Working Group memorandum of understanding in 2016 and also set a goal for North America to have 50 percent clean power generation by 2025. There should be little doubt that the size and scope of North American energy trade offers a compelling business case for not upsetting the proverbial apple cart."

**A** **Steven P. Otilar, partner Akin Gump Strauss Hauer & Feld, LLP:** "With the backdrop of President Trump calling NAFTA the 'worst trade deal ever signed,' there should be no debate that energy has not been fully addressed in NAFTA. Mexico, for example, exempted energy from NAFTA when it was first approved, due to its then-existing constitutional restrictions. In light of constitutional reforms in Mexico, unconventional shale development in Canada and the United States, and changing political tides, it seems that energy is now fair game for coordination with the rest of North America. Energy integration in North America is actually well under way. Crude oil exchanges have taken place between the United States and Mexico, even when the U.S. crude oil export ban was still in place. President Trump already approved the Keystone pipeline to bring crude oil from Canada to the United States, and ad-

ditional approvals have continued, including the issuance of another presidential permit last week for a pipeline that can transport up to 108,000 barrels per day of refined products from the United States into Mexico. The United States currently exports a substantial amount of natural gas to Mexico, with some economists saying that exports contribute at least 40 cents per mcf of the price of natural gas in Texas. Currently, there are more than 12,000 NAFTA comments that are being reviewed, and Mexico just opened its notice and comment period last week. Contrary to initial indications from the administration, it appears that the United States may be willing to include an energy chapter in NAFTA (even though the U.S. administration declined to do so in negotiations with the European Union with respect to the TTIP). With this backdrop, imports and exports of natural gas, refined products, and the ability to develop and transport hydrocarbons will be of key importance. As a net energy exporter, North American countries should be aligned on facilitating movement of expertise, equipment and resources among themselves, while enabling exports of crude oil, refined products and LNG. NAFTA can serve a central role in this process, and help align the parties to form a united North American energy hub."

**A** **George Baker, publisher of Mexico Energy Intelligence in Houston:** " 'North American energy integration' is a term that allows for loose and tight interpretations. Let's try the tight one. 'Integration' may refer to commerce or public policy, with regard to offshore safety, for example. As for commerce, integration should refer to competition and cooperation among parties that are equal before the law and whose access to capital is not favored or disfavored by their relationship to a government. Manifestly, the energy relationship between the United States and Mexico does not meet these two standards. Pemex is legally an agency of

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interest, taxes, depreciation and amortization fell by 8 percent to \$696 million, while sales fell by 1 percent year-over-year to \$3.58 billion, but were 2 percent higher after adjusting for currency effects and asset sales, the company said. Gains in Mexico, the United States and Europe were offset partially by declines in South and Central America, as well as Africa, the Middle East and Asia. The company also continued to use cash to pay down its debt in the second quarter, which it lowered by \$676 million to \$11.93 billion.

## Oilfield Suppliers Write Down Millions in Venezuela IOUs

Venezuela was unable to make cash payments to its biggest oilfield suppliers in the second quarter, and service companies Halliburton and Schlumberger accepted promissory notes for hundreds of millions of dollars that the companies immediately wrote down, according to the companies' second-quarter reports, Reuters reported Tuesday. France-based Schlumberger took a \$510 million impairment charge on promissory notes received from Venezuelan state oil company PDVSA in place of \$700 million in outstanding fees, while U.S.-based Halliburton recorded a pre-tax charge of \$262 million on promissory notes in exchange for \$375 million in fees. While neither company identified PDVSA by name in their financial filings, both described the oil company as their "primary customer" in Venezuela, and a source at PDVSA confirmed that the company had issued the notes. Representatives of the companies did not immediately respond to requests for comment by Reuters. Venezuela's ongoing political and economic crisis has caused the country to delay payments or issue government-backed promissory notes to pay suppliers for its beleaguered oil sector. Last month, Switzerland-based Weatherford International said it would reclassify \$31 million that it had previously listed as revenue instead as interest payment and a reduction in accounts receivable, due to the delay in PDVSA's payment.

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the Mexican government that happens to be mandated to explore for, produce, refine and sell hydrocarbons and petrochemicals. As such, it is not the legal equal of other oil companies. Further, its status means that it is not legally able to operate in the U.S. Gulf of Mexico where, as operator, it would be eligible for membership in the Center for Offshore Safety and in the Marine Well Containment Company. These limitations mean that the integration of safety regimes in the U.S. and Mexican portions of the Gulf of Mexico is currently impossible. There is a second inconvenience: as far as I know, Pemex continues to enjoy the right to invoke sovereign immunity, as it did successfully to avoid liability in the litigation over the Ixtoc-1 oil spill of 1979-1980. A third inconvenience is the implied sovereign guarantee of repayment. Any commercial arrangement by Pemex, CFE, PMI or any of the energy regulators has an implied sovereign guarantee of repayment. Having Pemex or CFE as an anchor customer for an infrastructure project may confer an advantage of as much as 400 basis points as compared to another prospective borrower with a similar project that is independent of these government agencies. These legal asymmetries and commercial inconveniences must go away if energy integration is to become more than just a slogan. One corrective measure, which we propose, would be the creation of a second national oil company in Mexico with a mixed-capital structure; this measure alone could come to make all oil companies in the Gulf of Mexico equal before the law."

**A** **Remi Piet, senior director at Americas Market Intelligence:** "The upcoming renegotiation of NAFTA could indeed offer an opportunity for a common North American energy security strategy. The original deal excluded the energy sector because of restrictions to foreign investment in Mexico that have since been mostly lifted. Despite these limitations, energy relations have deepened between the three countries. The

dynamics of energy supply and demand have dramatically shifted over the past decade, mainly due to the shale production revolution in the United States, which places the region on the path to self-sufficiency by 2020. The United States and its immediate neighbors have become strongly interconnected for crude oil, refined products, natural gas and electricity, with Mexico topping the list of recipients of U.S. exports of natural gas in the world. However, a series of obstacles hamper the strengthening of energy relations within NAFTA. President Trump's populist and simplistic foreign policy toward Mexico has antagonized many across the border. The developing LNG

“**The dynamics of energy supply and demand have dramatically shifted over the past decade...**”

— Remi Piet

supply glut, reinforced by Qatar's decision to hike production by 30 percent while slashing prices to secure market share over the next five years, might further encourage Mexico to turn toward another supplier. Finally, a harmonization of regulatory rules across borders is needed to reduce political and economic risks for suppliers. Standards of modernization and harmonization, including human capital development and best practices on environmental matters, are essential to supporting further energy sector integration. The stubborn and regressive position on climate change mitigation from the Trump administration deprives NAFTA of a key engine for energy integration on the continent: innovation in renewable energy and integrated grids."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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