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FEATURED Q&A

Is There Hope For a North American Energy Strategy?



U.S. Energy Secretary Rick Perry (R) met with his Mexican counterpart, Pedro Joaquín Coldwell (L), this week to discuss cooperation between the two countries' energy sectors and said developing a North American energy strategy is a priority. // Photo: @SecretaryPerry.

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 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

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TOP NEWS

OIL & GAS

Venezuelan Oil Exports to Cuba Fall in First Half of Year

Cuba has relied heavily on shipments of oil and fuel from Venezuela since 2000. The drop in deliveries threatens to worsen gasoline and power shortages in the communist country.

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POWER SECTOR

JPS Loses Legal Battle to Charge Customers \$34 Mn

Electric utility company Jamaica Public Service, or JPS, lost a court battle to recover \$33.6 million from its customers for payments the company made to its workers during a reclassification exercise.

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OIL & GAS

Consortium Strikes Major Gulf of Mexico Oil Find

Iván Sandra, the CEO of Mexico's Sierra Oil & Gas, which is a member of the consortium, said the find was double what the consortium had expected.

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Sandra // File Photo: Oil & Gas Council.

OIL & GAS SECTOR NEWS

PDVSA Vows ‘Security’ for Foreign Energy Companies

Venezuelan state-run oil company PDVSA said in a statement Monday that it is guaranteeing “legal security” to all foreign companies operating in the country’s energy sector, amid political upheaval and economic uncertainty, Reuters



Escarrá // File Photo: Venezuelan Government.

reported. The statement rejected an earlier suggestion from a government advisor that foreign companies operating in Venezuela could be nationalized. The statement was distributed to the country’s joint venture partners after government-allied lawyer Hermann Escarrá told PDVSA workers on July 4 that joint ventures with the oil company should be revised by a new “constituent assembly” so that the state owns 100 percent of PDVSA’s assets. The constituent assembly would supersede other government institutions to rewrite the country’s Constitution. A constituent assembly has been scheduled to take place later this month. The statement distributed on Monday, however, sought to assuage fears from foreign companies that a more radical wing of President Nicolás Maduro’s administration could seek to nationalize the companies, as then-President Hugo Chávez did in 2007. The statement said the state oil company “guarantees legal security to investors, partners, and others,” the statement read. “In the case of joint ventures, PDVSA has honored and will continue to honor the legal norms that allow the possibility of doing business with private companies.”

Consortium Strikes Major Oil Find in Gulf of Mexico

U.S. energy company Talos, Mexican energy company Sierra Oil & Gas and the United Kingdom’s Premier Oil on Wednesday announced a “historic and significant” oil discovery in shallow waters of the Gulf of Mexico, which the consortium says is the largest find anywhere in the world in the last five years, the Financial Times reported. The Zama well is located nearly 40 miles off the coast of southeastern Tabasco State, and is estimated to contain between 1.4 billion to 2 billion barrels of light oil, which may extend into a neighboring block, twice the size the consortium expected, according to Sierra CEO Iván Andrea. The consortium announced this find two years after winning the only two blocks awarded in Mexico’s first oil tender in July 2015. Sierra owns 40 percent of the block, Talos owns 35 percent and Premier owns 25 percent. “What really makes this unique is that this is truly an exploration project,” said Tim Duncan, the president and CEO of Talos, which operates the block. The well was in an area that had never before been explored, otherwise known as a “wild cat” drill. The closest well was more than 12 miles away and had come up dry.

Venezuelan Oil Exports to Cuba Fall in First Half of Year

Venezuela’s exports of crude oil and fuel to Cuba have fallen by 13 percent in the first six months of this year, according to documents from PDVSA, Reuters reported Thursday. The drop in deliveries threatens to worsen gasoline and power shortages in the communist country. The country has relied heavily on shipments of oil and fuel from Venezuela since 2000, when the two countries created a series of bilateral agreements under then-Venezuelan President Hugo Chávez to exchange oil and fuel for Cuban doctors and other services.

NEWS BRIEFS

U.S. Energy Secretary Visits Mexico City

U.S. Energy Secretary Rick Perry met with Mexican Energy Secretary Joaquín Coldwell in Mexico City on Thursday, Reuters reported. During the visit, Perry promised to promote cross-border trade and investment in the electricity sector, saying “Mexico’s prosperity is inextricably intertwined with [the United States]’ prosperity.” He added that it is a top U.S. priority to move forward with efforts to develop a North American energy strategy, as well as diversify energy sources. Coldwell said the two countries must work to modify the rules for their respective electricity markets in order to facilitate cross-border electricity trade.

Venezuela Offers India’s ONGC Videsh Oil Stake

Cash-strapped Venezuela has offered Indian oil company ONGC Videsh an increased stake in an oil field, according to two sources, Reuters reported July 7. State oil company PDVSA has proposed selling a 9 percent stake in the San Cristobal oil field to ONGC Videsh, which already holds a 40 percent stake in the field. The San Cristobal field produces between 22,000 and 23,000 barrels of oil per day. The sale amount would be relatively modest, according to analysts.

Petrobras Seeking to Sell Paraguay Operations

Brazilian state-run oil company Petrobras on July 7 disclosed the initial terms of its plan to sell all of its operations in Paraguay, according to a securities filing, Reuters reported. The company is looking to exit the natural gas distribution sector in Paraguay and will also sell the hundreds of gasoline stations and convenience stores it owns in the country. It is also looking to potentially sell its operations at three Paraguayan airports and a distribution unit near the city of Villa Elisa.

Shipments of Venezuelan crude to Cuban refineries fell by 21 percent to 42,310 barrels per day during the first half of this year, and refined products sent to Cuba remained steady at 30,040 bpd. Venezuela sent a total of 72,350

The drop in exports could worsen gasoline and electricity shortages on the island.

bpd of crude and refined products to Cuba the first half of this year, down 13 percent year-over-year. Cuba has already had to ration its fuel allocations and electricity consumption. Last year, the government reduced fuel allocations by 28 percent to most state-run companies and cut electricity consumption, including a 50 percent cut in public lighting. Cubans have reported minor gasoline and diesel shortages at gasoline stations since March of this year. "Cuba needs at least 70,000 bpd from Venezuela to cover its energy deficit and avoid deeper rationing. A larger or total loss of the Venezuelan supply would have a high political and financial cost for Cuba," particularly as it looks to increase tourism on the island, said Jorge Piñon, a Cuban energy expert at the University of Texas at Austin.

POWER SECTOR NEWS

JPS Loses Legal Battle to Recover \$33.6 Mn From Customers

Electric utility company Jamaica Public Service, or JPS, lost a court battle to recover approximately \$33.6 million from its customers for payments the company made to its workers during a reclassification exercise. The Jamaica Gleaner reported July 7. JPS in 2000 commissioned a reclassification exercise in which the company decided to raise the salaries of its workers, and the salary adjustment would cost the company \$33.6 million. The company then

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the United States, and additional 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 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 **Jeremy M. Martin, member of the Energy Advisor board and 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 renegoti-

Continued on page 6

applied to the Office of Utilities Regulation to recover the cost of the salary adjustment from its customers. The office denied the application, so JPS took the matter to the Appeal Tribunal, then to the Judicial Review Court, and the Court of Appeal, all of which dismissed the case. Jamaica's final court, the U.K.-based Privy Council, on July 6 ruled against a final appeal from JPS that had challenged the decision of the Court of Appeal from 2015.

POLITICAL NEWS

Lula Sentenced to Nearly 10 Years in Petrobras Case

Former Brazilian President Luiz Inácio Lula da Silva on Wednesday was convicted of corruption and money laundering in connection with the massive graft scandal at state-run oil



Lula // File Photo: Lula Institute.

company Petrobras and was sentenced to nine and a half years in prison. Once hailed as an innovative leader in the Western Hemisphere, Lula has been seen as a frontrunner ahead of next year's presidential election in Brazil. However, his conviction puts his political future in doubt. "No matter how important you are, no one is above the law," Judge Sérgio Moro said in announcing the verdict, The Washington Post reported. Lula's actions were part of a "scheme of systemic corruption" at the state oil company, Moro added, The New York Times reported. Lula's lawyers have said the former president, the highest-profile person so far convicted and sentenced in the Petrobras scandal, will appeal, The Washington Post reported. That process could take a year and a half,

ADVISOR Q&A

Will Pacific Alliance Countries Benefit From New FTAs?

Q Trade ministers from Australia and New Zealand on July 1 both announced they would start talks for new free-trade agreements with the Pacific Alliance. The alliance, which Colombia, Chile, Mexico and Peru founded in 2011, has more than 221 million consumers and a combined GDP of \$3.85 trillion, equivalent to the world's sixth-largest economy. How would the free-trade agreements affect the economies of the Latin American member states? Which sectors stand to gain or lose the most from the potential agreements?

A Jose Blanco, chairman of the Australia-Latin America Business Council and senior partner at Blanco Partners: "The FTAs would enable the countries involved to capture some of the benefits that would have come their way had the Trans-Pacific Partnership come into existence. They represent a timely vote of confidence in free trade and in the Pacific Alliance, contributing to entrenching the alliance as an important model for regional integration and for engagement with global markets. The FTAs will provide a platform for expanding and deepening commercial, social and political relationships. The Australian FTA will offer the Latin American member states—with Mexico being a notable exception, because

of the scale of its sizeable manufacturing sector—an opportunity to engage with and to learn from a commodities-based market that has achieved a high level of economic development through the efficient exploitation of natural resources, a growing investment in technological innovation and an emphasis on high-quality education. The Australian FTA will generate greater interest in Australia in connecting with the member states and should deliver increased trade flows in both directions. The Pacific Alliance is already a growing market for Australia, with total two-way trade in goods and services being valued at \$4.4 billion in 2016, which is more than double the amount 10 years ago. More importantly, there should be increased investment flows into sectors where Australian business enjoys competitive advantages, such as natural resources, agribusiness and the services sector. Already, more than 300 Australian businesses currently operate in the member states, and this number can be expected to increase significantly, with the focus on mining, education, environmental services and more."

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

and Lula is expected to remain free while the case continues. Legal scholars say Lula still could run in Brazil's next presidential election, scheduled for October 2018, while his case is on appeal, The New York Times reported. However, if Lula loses the appeal, his Workers' Party could be left without a candidate in next year's election; if he wins the election, he could be prevented from taking office. Lula was con-

victed on charges that he accepted the use of a beachfront apartment and free renovation work on the property from engineering company OAS in exchange for helping the company to secure lucrative contracts with Petrobras, The Washington Post reported. Lula's lawyers have said the property belonged to the construction company and that Lula had visited it only once. Lula denies wrongdoing. In a statement issued

NEWS BRIEFS

Guatemala to Extradite Former Mexican Governor Duarte Next Week

Guatemala plans to extradite former Mexican governor Javier Duarte, who is wanted on charges of embezzlement and organized crime, next week, Guatemala's foreign ministry said Wednesday. Duarte, who was governor of Veracruz State and a member of the ruling Institutional Revolutionary Party, or PRI, until last year, could be returned to Mexico on July 17, Guatemalan foreign ministry spokesman Tekandi Paniagua said. Under Duarte's governorship, Veracruz State saw an increase in gang violence and kidnappings, and Duarte came under fire over accusations of widespread corruption in his administration.

Paraguayan, Taiwanese Presidents Meet in Taipei

Paraguayan President Horacio Cartes on Wednesday met with Taiwanese President Tsai Ing-wen in Taipei and marked the 60th anniversary of the establishment of diplomatic ties between the two countries, Taiwan Today reported. At the start of the three-day state visit, the leaders signed an economic cooperation accord and a mutual recognition agreement. Tsai said the accords will help promote bilateral business ties and deepen cooperation.

Argentina Refinances \$840 Million in Maturing Treasury Notes

Argentina has refinanced \$840 million in maturing treasury notes that were denominated in dollars after it received orders totaling \$1.75 billion, Reuters reported Wednesday, citing a statement by the country's Finance Ministry. Included in the refinancing was \$500 million in 273-day treasury notes maturing next April and \$250 million in 455-day treasury notes maturing in October 2018. Public entities were directly sold another \$90 million of debt.

late Wednesday, Lula's lawyers said the former president is innocent and added he is the victim of a politicized prosecution, "a famous strategy that has been used to brutal effect by various dictatorships throughout history," The New York Times reported.

Ex-Venezuelan Transport Minister's Relatives Accused in Bribery Case

Venezuela's state prosecutor's office on Wednesday said it would indict two relatives of former Transportation Minister Haiman El Troudi for their alleged involvement in bribery schemes related to Brazilian construction conglomerate Odebrecht, Reuters reported Wednesday. The state prosecutor on Twitter

To get to me, Mrs. Prosecutor, my immunity is no obstacle and my family shouldn't be the way forward."

— Haiman El Troudi

wrote that Maria Baptista and Elita Zacarias "are linked to the ex-Minister Haiman El Troudi and must appear July 27," but did not provide any further details. El Troudi said that his relatives, identified by local media as his wife and mother-in-law, had nothing to do with the case against him. "To get to me, Mrs. Prosecutor, my immunity is no obstacle and my family shouldn't be the way forward," El Troudi wrote on Twitter. "As this case is chiefly political, know that I will be the one to present myself to the prosecutor's office, with my conscience clear and my head high." Reuters was unable to obtain comments from Baptista and Zacarias on the matter. Last year, Odebrecht admitted to paying some \$98 million in bribes over the course of several years to Venezuelan politicians in exchange for public contracts. Earlier this year, prosecutors sought the arrest of

the head of Odebrecht Venezuela, Euzenando Azevedo, but were unable to do so, and he is now presumed to have left the country.

ECONOMIC NEWS

Brazilian Senate Approves Labor Reform Bill

Brazil's Senate on Tuesday approved labor reform legislation, which updates the country's decades-old labor laws, making employment rules more flexible and eliminating mandatory union dues, among other changes, The Wall Street Journal reported. The Senate's passage of the bill, on a vote of 50-26 with one abstention, was seen as a sign that lawmakers remain committed to embattled President Michel Temer's push for reforms, despite falling support for his government, Bloomberg News reported. The reform will help boost growth, Rafael Sabadell, a fund manager at GGR Investimentos, told The Wall Street Journal. Labor unions have opposed the changes, saying they trample workers' rights. The lower house previously passed the reform, which will now be sent to President Michel Temer for his approval.

Argentina's Inflation Rises 1.2% in June

Argentina's consumer prices rose by 1.2 percent in June, government statistics agency Indec said Tuesday, in the first release of a national index since President Mauricio Macri took office a year and a half ago, Reuters reported. The index was a milestone for the Macri administration, which has been seeking to restore credibility to its official statistics apparatus after the country faced allegations that former President Cristina Fernández de Kirchner's administration had manipulated the statistics to make them look more favorable. Consumer prices rose 11.8 percent nationwide in the first half of this year and by 12 percent in the Buenos Aires area.

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tiations. 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

“If these trends [of integration] continue, North America is well-positioned as a global energy power.”

— Jeremy M. Martin

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 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. Meanwhile, 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 **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 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 contact editor Gene Kuleta at gkuleta@thedialogue.org.

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