LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Tuesday, September 12, 2017

FEATURED Q&A

Will Bolivia Become a Regional Energy Powerhouse?

A natural gas refueling station in the city of Cobija, built by the state-owned Yacimientos Petrolíferos Fiscales Bolivianos (YPFB). // File Photo: YPFB.

Q Bolivian Hydrocarbon Minister Luís Sánchez recently lauded the country's achievements in the gas and hydrocarbon sectors, saying the country could become South America's "energy heart," thanks in part to the nationalization of its natural resources. However, an official from Brazil's mines and energy ministry has said his country wants to start a pilot project next year to explore the possibility of tapping unconventional oil and natural gas reservoirs in an effort to become more energy independent. Brazil is one of Bolivia's main natural gas importers. What is the outlook for Bolivia's energy sector, and has the nationalization of oil and gas been as successful as the government says? Will Brazil continue to be a main importer of Bolivian gas? How will Bolivia's energy sector fare as unconventional energy sources become more popular in Latin America?

A Iván Rebolledo, a managing partner at TerraNova Strategic Partners LLC, and president at the Bolivian-American Chamber of Commerce: "Indeed, Evo Morales' government was successful in forcefully renegotiating contracts with the hydrocarbons sector at the outset of his presidency, mistakenly referred to as nationalization. These actions led to very significant changes in royalty distribution and exponential gains for the Bolivian treasury, which in turn helped implement numerous cash-transfer programs and other initiatives that advanced social development. According to recent World Bank figures, annual GDP growth has hovered around 4.8 percent since 2010, while extreme poverty has gone from 36 percent to 17 percent. Unfortunately, from that early period to the present, the government has

Continued on page 2

TODAY'S NEWS

ECONOMIC

Brazil Stock Index Rises to New High

The Bovespa has climbed 23.4 percent this year to date, despite uncertainty surrounding the staying power of unpopular President Michel Temer and his market-friendly reform agenda.

Page 2

BUSINESS

Peru Court Allows Sale of Odebrecht Unit to Brookfield

A lower court had blocked the sale, which involves a $500 million irrigation network and 12-mile tunnel through the Andes, at the request of a government attorney who has since been dismissed.

Page 3

POLITICAL

Venezuela Sets Date for Long-Delayed Elections

Venezuelan election authorities on Monday set Oct. 15 as the date for long-delayed gubernatorial elections in 23 states. The elections were supposed to have taken place last year but were scrapped by the government of President Nicolás Maduro.

Page 2

Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

Venezuela Sets Oct. 13 as Date for Long-Delayed Elections

Venezuelan election authorities on Monday set Oct. 15 as the date for long-delayed gubernatorial elections in 23 states, the Associated Press reported. The crisis-wracked country's main opposition forces are favored to win in numerous races, although concerns over election fraud could cast doubt on the legitimacy of the results. The gubernatorial elections were supposed to have taken place last year but were scrapped as the country's economic problems mounted and polls indicated Venezuelans heavily favored removing President Nicolás Maduro before the end of his term. The names of the candidates will be announced Sept. 23, and campaigns will run for 20 days, until Oct. 12, El Universal reported. In related news, the United Nations' human rights chief said on Monday that Venezuelan security forces may have committed crimes against humanity in recent months and called for an international investigation, Reuters reported. "My investigation suggests the possibility that crimes against humanity may have been committed, which can only be confirmed by a subsequent criminal investigation," Zeid Ra'ad al Hussein told the U.N. Human Rights Council. Venezuela's Foreign Minister, Jorge Arreaza, on Monday rejected the allegations as "baseless" and described protesters as agitators using weapons against security forces. Near-daily protests earlier this year that left scores of people dead have subsided in recent weeks. The last protester killed in a street conflict died on July 30.

ECONOMIC NEWS

Brazil Stock Index Rises to Record High

Brazil's main stock index climbed to a record high Monday as investors bought into chances that South America's largest economy had seen the worst of its longest-running recession, the Associated Press reported. São Paulo's Bovespa index rose 1.7 percent to 74,319 points, well above the previous record of 73,516 set May 20, 2008, when Brazil's economy was buoyed by a commodities boom. The Bovespa has climbed 23.4 percent this year to date, despite uncertainty surrounding the staying power of unpopular President Michel Temer and his market-friendly reform agenda. Equities also gained steam earlier this year when former left-of-center President Luiz Inácio Lula da Silva, a vocal opponent of economic austerity

FEATURED Q&A / Continued from page 1

been unsuccessful in attracting significant investment in the hydrocarbons or overall extractive industries sectors, mainly due to excessive country risk and political upheaval. Additionally, Bolivia has renounced most bilateral investment treaties, making many investors wary. Over the past two years, we have seen Petrobras, Total and Gazprom announce multi-billion dollar exploration projects, as well as a few smaller independents with a robust risk appetite to operate. Morales is clearly interested in turning Bolivia into the energy hub of the Southern Cone, with particular interest in Brazil and Argentina. YPFB, the state oil company, recently announced a $30 billion investment plan to enhance its overall operations, vis-à-vis an increase in its current gas reserves from 10.5 trillion cubic feet to 18 trillion Tcf by 2025. This greater capacity requires expertise and foreign investment, as well acumen in exploration, which is lacking at YPFB. As Brazil has developed its own energy alternatives, including its pre-salt fields, it recently announced its intent to cut, by half, its purchase of Bolivian natural gas. Bolivia has been focusing on the unconventional energy market and recently created the

Continued on page 4

NEWS BRIEFS

Mexico Rescinds Offer to Help U.S. Victims of Harvey Flooding

Mexico's government on Monday withdrew its offer of aid to the United States to help victims of Hurricane Harvey, saying those resources are now needed at home as Mexico recovers from a separate hurricane and earthquake last week, the Los Angeles Times reported. Amid criticism that U.S. President Donald Trump had not offered customary condolences to Mexico in the face of the recent tragedies, Secretary of State Rex Tillerson on Monday called Mexico's foreign minister to offer assistance.

Guatemala Congress Votes to Keep Presidential Immunity Despite Probe

Legislators in Guatemala on Monday overwhelmingly voted to keep President Jimmy Morales's immunity from prosecution, the New York Times reported. Although the measure protects Morales from a high-profile campaign finance investigation, that investigation in general can continue. With so many legislators themselves embroiled in questions over campaign finance, the congressional vote to preserve the president's immunity appeared to be a decision to close ranks against the investigation, according to the report.

IDB Lending to Argentina Expected to Increase

Finance Minister Luis Caputo said Monday that the Inter-American Development Bank will likely lend more to Argentina between 2016 and 2019 than the $6 billion initially anticipated, Reuters reported. The Washington-based lender will nearly reach that figure by the end of 2018, and another $2.3 billion in loans could follow in 2019, Caputo said, noting that total IDB financing, including private sector loans, will reach $10 billion by the end of President Mauricio Macri's first term in 2019.

measures, was prosecuted for corruption and became less likely to run for office next year, according to the AP. Brazil's central bank last week slashed interest rates to a four-year low in a bid to spur an incipient economic recovery, Reuters reported. However, the pace of monetary easing will probably be reduced next month as policymakers prepare to gradually stop cutting rates, according to the report.

BUSINESS NEWS

Peru Court Allows Sale of Odebrecht Unit to Brookfield

An appeals court in Peru on Monday rescinded a ban on Brazilian construction company Odebrecht's sale of its Olmos irrigation business to a consortium led by Toronto-based Brookfield Infrastructure Partners, Reuters reported. A lower court had blocked the sale, which involves a $500 million irrigation network and 12-mile tunnel through the Andes, at the request of a government attorney who since has been dismissed. The appeals court said forbidding the transaction was unconstitutional and would make it harder for Peru to secure reparations from Odebrecht, which has been mired in corruption cases around the region. The block stemmed from a corruption investigation into former President Alejandro Toledo, who stands accused of taking millions of dollars in bribes and is currently residing in the United States to avoid arrest. The financial details of the sale have not been disclosed. Earlier this year Peruvian officials predicted much weaker growth in 2017 due to the "Odebrecht effect," as investment cooled and stalled public works projects worked through the court system. New York-based ratings agency Moody's this week raised its economic growth forecast for Peru next year, however, from 2.6 percent to 3.9 percent, in light of higher government spending on reconstruction from natural disasters earlier this year, state news agency Andina reported Monday.

THE DIALOGUE CONTINUES

Will Brazil's Privatization Drive Pay Off?

Q The Brazilian government is pushing to privatize state assets in a bid to raise revenues and boost investment. Highways, ports and the country's mint, among other state assets, are up for privatization. In late August, President Michel Temer traveled to China to meet with potential investors. How big of a role will China play in Brazil's privatization plans? Is it a good idea for Brazil to relinquish state control of dozens of state firms? To what extent will Temer's privatization efforts strengthen Brazil's economy?

A Robert Muggah, co-founder and research director at the Igarapé Institute in Brazil, and co-founder of the SecDev Group in Canada: "Even by Chinese standards, the scope, scale and speed of the country's investments in Brazil are staggering. Already Brazil's leading trading partner, China exported $28.1 billion (as compared to Brazil's $35.2 billion in exports) in mostly industrial products in 2016. Chinese firms are also busy expanding lending and investment into new areas, from a narrow focus on commodities to manufacturing, logistics and even technology and renewable energy. Chinese companies spent $11.9 billion acquiring Brazilian energy and infrastructure firms in 2016 and another $5.6 billion so far in 2017. And with Brazil barely out of recession and desperate for foreign investment, the buying spree is set to increase. Sensing an opportunity, China is making a major strategic play in Brazil. Earlier this year, Brazilian and Chinese authorities launched a $20 billion investment promotion fund focused on infrastructure, manufacturing, agribusiness and technology. It is the first of its kind in Latin America; for every dollar mobilized in Brazil, another three will be matched from China. This builds on the $50 billion package of investment in railways announced in 2015. To be sure, Brazil is badly in need of investment and has already announced dozens of auctions for 2018, including of publicly owned airports, highways, oil fields, water and waste facilities, and indebted power companies and electricity lines. The Temer administration is seeking to transform the country's regulatory framework and privatize state-owned assets. In his most recent trip to China, Temer called for investment in infrastructure, for which there is clearly pent-up demand. Yet there is also a risk that a fire sale of public assets could hand over too much control to China. China recently purchased 21 Brazilian electricity companies and controls up to 10,000 kilometers of power lines. As China moves from mergers and acquisitions to greenfield investments, local activists worry about the environmental effects of new investments and labor, and human rights standards more generally. Brazilian authorities are keen to avoid the mishaps associated with Chinese investment in Chile, Colombia and Peru. Wracked by the world's largest corruption scandal, Brazilians are understandably worried about transparency."

> **"A fire sale of public assets could hand over too much control to China."**
> **— Robert Muggah**

EDITORS NOTE: The above is a continuation of the Q&A in Monday's Latin America Advisor.

FEATURED Q&A / Continued from page 2

ministry of energy as a stand-alone entity away from the ministry of hydrocarbons, which is focusing on renewables (wind, hydro, geo-thermal) and has attracted a few international partners and investors, such as Germany and France. However, much more has to be done in this sector, with a stronger commitment from the government."

A **Carlos Echazu, energy economist and lawyer:** "The nationalization process of Bolivian oil and gas was very successful. The government used the proceeds for new infrastructure projects, boosting investment and growth. In the last 10 years, a wide range of sectors—transportation, electricity, natural gas and telecommunications—have all benefited from higher public investment.

> **"There is no guarantee that energy prices will rebound to the high levels observed before 2014."**
> — Carlos Echazu

Additionally, public resources obtained from exporting natural gas to Brazil and Argentina were used to finance cash transfers programs that reached poor households. High prices of oil and gas from 2005 to 2014 and an increase in taxes and royalties allowed the government to increase its income and finance these important projects and social programs. Nevertheless, natural gas reserves have been depleted. About 55 percent of Bolivia's gas production goes to Brazil, 30 percent to Argentina and nearly 20 percent is for domestic consumption. Therefore, investment in exploration is key to keeping the pace of exports. Among the main challenges for new investment are the low prices of oil and gas. Given the international context, there is no guarantee that energy prices will rebound to the high levels observed before 2014. Low prices are also a threat for unconventional oil and gas production, because these technologies need higher prices to become profitable. Brazil may have to find other alternatives to reduce its dependence on gas imports. An alternative for Brazil, however, is to focus on energy security rather than energy independence; one possibility is to work with Bolivia to find new reserves. Petrobras could sign an exploration contract with YPFB, and if successful, this endeavor would be favorable for both countries."

A **Alvaro Rios, partner-director at Gas Energy Latin America:** "Bolivia has plenty of natural gas potential, and recently some new exploration by the private sector is beginning to take place that will produce results between 2018 and 2021, if geology is favorable, of course. This came as new incentives were introduced in 2016. However, Brazil is also launching a massive exploration campaign with strong incentives and a new, more open and more competitive regulation framework for natural gas. This is not only for unconventional gas, but also for associated gas offshore and mainly pre-salt gas, for which Brazil has to solve infrastructure and carbon issues. But companies will, sooner or later, want to monetize gas molecules. With Argentina in the same process of giving incentives and new more competitive regulatory framework, mainly in Vaca Muerta, Bolivia's natural gas will have to compete not only with more gas produced regionally but also with more flexible LNG. Bolivia has a developed process and transportation infrastructure, and there is room for Bolivia in both markets. However, contracting processes will be more complex, contracts will be shorter-term and we believe they will be under different pricing structures."

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2017

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
freetrial@thedialogue.org