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FEATURED Q&A

Will Mexico's Elections Affect Its Energy Sector?



Mexican Presidential Candidate Andrés Manuel López Obrador has said he would review energy-sector contracts made after President Enrique Peña Nieto's landmark energy reform that opened up the sector to private investment. // Photo: Wilson Center.

Q Andrés Manuel López Obrador, widely known as AMLO, said Sept. 5 in Washington that if elected Mexico's president, he would review the oil contracts that were signed after the country's historic oil-sector reforms, adding that he did not trust those who had agreed to the deals on the country's behalf. Should companies hold off on investing in Mexico's energy sector until after next year's presidential elections? What risks are outside investors facing in the run-up to the election, and what protections exist for investors if AMLO or another presidential candidate with similar views about the energy sector is elected? How likely is AMLO to reverse Mexico's energy reforms if he becomes president?

A Remi Piet, senior director at Americas Market Intelligence: "AMLO's promise to revisit the energy-industry opening and contracts should be taken with distance. Such comments are part of his campaign effort to rally his supporters ahead of next year's elections. His recent declarations were more aimed at underlining potential corruption or arbitrary decisions, rather than a frontal attack on foreign investments. He also confirmed private investments would be needed to reverse declining production and modernize refining capacity. As mayor of Mexico City, AMLO turned out to be more business friendly than initially feared. Moreover, the current Mexican administration seeks to include energy in the current NAFTA renegotiations, a move currently opposed by Donald Trump, influenced by U.S. workers' unions. The objective is to allow investors to seek third-party arbitration, thus restricting the ability of governments to seize foreign investments, which

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TOP NEWS

OIL & GAS

Exxon Mobil Buys 10 Blocks in Brazil Oil Auction

In its first oil auction since December 2015, Brazil saw mixed results on Wednesday, only selling one out of 76 offshore blocks on offer at the highly productive Santos basin, but selling eight offshore blocks in the Campos basin.

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RENEWABLES

Chile's Piñera Vows Renewable Grid by 2040

Chilean presidential candidate and former President Sebastián Piñera pledged to enact a plan that will move Chile to a fully renewable electricity grid by 2040.

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OIL & GAS

Argentina to Drop Fuel Price Controls in Oct.

Energy and Mining Minister Juan José Aranguren said the government is planning to suspend a price-setting system for domestic fuel sales starting next month.

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Aranguren // File Photo: Argentine Government.

OIL & GAS SECTOR NEWS

Exxon Mobil Buys 10 Blocks in Brazil Oil Auction

In its first oil auction since December 2015, Brazil saw mixed results on Wednesday, only selling one out of 76 offshore blocks on offer at the highly productive Santos basin, but selling eight offshore blocks in the Campos basin for a record \$1.19 billion to Exxon Mobil, six of which were sold to the consortium between the oil major and state-controlled oil company



Parente // File Photo: Brazilian Government.

Petrobras, Reuters reported. Exxon Mobil also won two additional blocks in the Sergipe-Alagoas basin, with plans to develop them with Queiroz Galvão Exploração e Produção (QGEP) and Murphy Oil Corp. The auction was seen as a bellwether for the country's oil sector following a massive corruption scandal at Petrobras and President Michel Temer's market-friendly reforms aimed at attracting investment to the sector. The lackluster result at the Santos basin could be a sign that low global oil prices and less cash for investments may have stymied international investors' appetite for oil investments in Brazil. Karoon Gas Australia won the block in the Santos basin with a \$6.3 million signing bonus, though the remaining 75 blocks received no bids. Ahead of the auction, officials had expected to sell as many as 40 percent of the blocks and raise \$157 million in the basin. The record sale in the Campos basin exceeded expectations, however. The bid from Exxon Mobil was the highest-ever such bid. "We are anxious to work with the Brazilian

government and our partners to develop the exploration of our winning blocks," Exxon said in a statement. Petrobras CEO Pedro Parente said the company decided to bid such a high amount for the six blocks because information suggested that the blocks were part of the lucrative pre-salt area, which is one of the world's largest oil discoveries in recent decades.

France's Total Captures New Assets in Gulf of Mexico

French energy company Total on Sept. 22 said it was able to "capture" more assets in the Gulf of Mexico by reaching an agreement with U.S. energy company Chevron, UPI reported. "Total has entered into an agreement to capture seven prospects operated by Chevron in the deepwater Gulf of Mexico," Total said in a statement. The company increased its assets in the area by gaining between 25 percent and 40 percent participation in the projections in question, the company said. Neither Total nor Chevron disclosed the terms of the agreement. The agreement between the two companies followed a notification from rig company Transocean that Chevron had terminated a

The agreement with Chevron increased Total's footprint in the area.

contract for deep-sea drilling in the region about one year early. The cost of the drillship was \$575,000 per day to lease, a one percent increase from the previous rate to lease the rig per day. Transocean said it would receive a lump-sum \$146 million for contract termination fees. Chevron did not comment on the early termination of the contract or on the agreement reached with Total. The French company said it valued Chevron's performance as a deepwater company and that the agreement between the

NEWS BRIEFS

Argentina to Suspend Fuel Price Controls Next Month

The Argentine government is planning to suspend a price-setting system for domestic fuel sales starting next month, due to an increase in global oil prices, Energy and Mining Minister Juan José Aranguren announced on Monday, Reuters reported. The price for domestic fuel is currently set by the government in coordination with companies that produce and refine oil, in order to sustain interest in domestic drilling amid low global oil prices. The policy allows the market to determine fuel prices when they are deemed high enough.

Peru Oil Pipeline Reopens After Year of Repairs

A 687-mile-long oil pipeline in Peru became fully operational on Tuesday after a year of repairs, a spokesman for state oil company Petroperú said, Reuters reported. The company had reported more than a dozen ruptures on the aging pipeline, including two this month that Petroperú blamed on attacks by unknown vandals. The pipeline had transported some 15,000 barrels of oil per day before the spills.

Brazil's Braskem Ends Supply Contract With Venezuela's PDVSA

Brazilian petrochemical company Braskem has terminated a contract set to expire this month to buy light virgin naphtha and natural gasoline from Venezuelan state oil company PDVSA, Reuters reported Sept. 21. Braskem declined to comment on its reason for ending the long-term contract early, but said the naphtha purchased through the supply agreement represented less than 0.1 percent of its annual naphtha consumption. PDVSA did not respond to a request for comment. Both a Braskem and a PDVSA source said that U.S. sanctions on the Venezuelan state oil company played a role in Braskem's decision.

two companies expands upon pre-existing partnerships between the two companies. "This agreement ... increases Total's footprint in the U.S. Gulf of Mexico, where it can apply its exploration expertise and deepwater technologies," the president of the company's exploration and production division said.

RENEWABLES NEWS

Chile's Piñera Vows Fully Renewable Power Grid by 2040

Chilean presidential candidate and former President Sebastián Piñera on Sept. 21 pledged to enact a plan that will move Chile to a fully renewable electricity grid by 2040, Reuters reported. A conservative, Piñera is currently leading the polls ahead of the November vote. He said that if elected, he would work to ex-



Piñera // File Photo: @sebastianpinera on Twitter.

pand upon the major investments the country has already made in the renewables sector. "The goal is that by 2040, Chile has a 100 percent clean and renewable electricity grid and a 100 percent electric public transit system," he said at a campaign rally. Chile is a prime target for the renewables sector, as it imports nearly all of the oil and gas it consumes but its desert climate and long coastline are good conditions for solar and wind power generation. Piñera is unlikely to win the November election outright, however, and a runoff election against center-left candidate Alejandro Guillier or far-left candidate Beatriz Sánchez would likely prove more difficult to win.

UAE-Caribbean Renewables Fund Announces Projects

The United Arab Emirates has announced the first five projects under the \$50 million UAE-Caribbean Renewable Energy Fund that aims to reduce energy costs in the region and improve energy infrastructure's resilience to natural disasters like Hurricane Irma in the future, the Khaleej Times reported Monday. The projects

will be located in Antigua and Barbuda, the Bahamas, Barbados, Dominica and St. Vincent and the Grenadines. The partnership aims to fund renewable energy projects across 16 countries in the Caribbean over the next two or three years, and is one of the largest grants for renewable energy initiatives in the Caribbean region. "The Caribbean Islands have vast untapped renewable energy potential which can provide far-reaching benefits in terms of costs, resilience and, ultimately, to drive sustainable economic and social development," said Mohamed Jameel Al Ramahi, CEO of Masdar, one of the partners in the fund.

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would make it far more difficult for AMLO to reverse Mexico's energy reforms, forcing him to pull out of a popular treaty in Mexico that helped drive the country's economic development. AMLO leads in the polls because he currently has the political field to himself, while other parties are yet to select their candidates. However, he has blown bigger leads in the past (e.g. 16 points in 2006). There is also a growing consensus in the electorate that foreign investment is vital. The awarding of blocks to Chevron, Exxon, Total and CNOOC are not considered controversial by industry watchers. That said, these and other new operators need to build bridges with all three viable parties (Morena, PAN and PRI) to hedge any political risk that comes with a new sexenio."

A George Baker, publisher of **Mexico Energy Intelligence in Houston:** "The possible left turn in energy policy after 2018 should be reason enough for investors to ponder taking (or not taking) advantage of current opportunities. Long-term contracts are obligations of the Mexican republic, not of its president. Investors have recourse under NAFTA and the OECD against virtual expropriation of the kind that Metalclad endured in the late 1990s and that Marathon Oil suffered in the early 2000s. As for Andrés Manuel, he would be right to wonder if, as written and executed, the energy reform is

good for the country, but he would have no doubt that it is good for the PRI's narrative about the country. Pemex and CFE are preserved as state corporate icons that are led by appointees of the president of Mexico. In the name of the iconic Lázaro Cárdenas (who expropriated the oil industry in 1938), oil leases have been auctioned, and Pemex

“Once in office, and reviewing the pros and cons of the energy reform, AMLO is likely to find much more to like than to dislike.”

— George Baker

now has joint equity in leases with two top-tier oil companies: BHP and Chevron. Once in office, and reviewing the pros and cons of the energy reform, AMLO is likely to find much more to like than to dislike. The risk to investors will arise more from the inexperience of the new cadre of public servants than from the ideology of its members. Their inexperience could show itself in a slowdown of the scheduling and scope of oil leases and power auctions. Pemex and PMI, meanwhile, will continue to enjoy their hegemonic positions in midstream and downstream markets."

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ECONOMIC NEWS

Damage From Mexico Quakes May Exceed \$2 Billion

Damage from the two powerful earthquakes that struck Mexico this month could exceed \$2 billion, President Enrique Peña Nieto said Wednesday, the Associated Press reported. Peña Nieto said the figure was a preliminary estimate and that officials were still assessing damage, especially in Mexico City, where the Sept. 19 earthquake caused the collapse of at least 38 buildings. Rebuilding just schools will cost some 13.6 billion pesos (\$750 million), the president said. Rebuilding and repairing homes will cost approximately \$550 million, while damage to cultural sites amounted to \$440 million, Peña Nieto added. The government is also making \$356 million in direct transfers to victims of the Sept. 7 earthquake and aftershocks in Chiapas and Oaxaca States to help them rebuild their homes. "I hope that in the new year we will be able to have also a new Mexico, rebuilt and in normal conditions," said Peña Nieto. The Sept. 7 earthquake, which had a magnitude of 8.1 and struck off the coast of Chiapas, killed nearly 100 people. The Sept. 19 quake, which had a magnitude of 7.1 and was centered 34 miles south of Puebla in central Mexico, killed at least 338 people, authorities said Wednesday. The dead included 199 in Mexico City, National Civil Defense chief Luis Felipe Puente said on Twitter. Seventy-four others were killed in Morelos State, 45 Puebla State, 13 in the State of Mexico, six in Guerrero State and one in Oaxaca State.

Brazilian Gov't Reinstates Amazon Mining Ban

Brazilian President Michel Temer's government on Monday announced it would reinstate a mining ban in part of the Amazon rainforest, revoking an August decree that abolished the

ADVISOR Q&A

How Are U.S. Federal Reserve Decisions Affecting Latin America's Economies?

Q **The U.S. Federal Reserve on Sept. 20 announced its decision to keep interest rates steady and to begin unwinding stimulus it put in place amid the Great Recession. What effect will the Fed's decision have on emerging markets, specifically in Latin America? How vulnerable are Latin American economies to any future Fed policy changes? What can Latin American economies do to best respond to rising U.S. interest rates in the future?**

A **Alicia Bárcena, executive secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC):** "The decision by the U.S. Federal Reserve to leave interest rates unchanged and to start withdrawing quantitative easing (QE) in October had been somewhat expected, so there was not much effect on financial market volatility. There was, however, an immediate effect on the dollar, which appreciated as the Fed signaled that it still expects one more increase of 25 basis points by the end of the year and three more in 2018. Also, the prices of some commodities were negatively affected. Traditionally, Fed policy rate decisions have been transmitted to Latin American countries through several channels. The first is the effect of Fed decisions on general market volatility and uncertainty. For the last couple of years, this has not been such an issue, given the Fed's relative predictability. The second is the effect on the value of the dollar and

hence of Latin American currencies. Rate hikes (or the announcement of future hikes) accompanied by an appreciation of the dollar vis-à-vis Latin currencies can induce portfolio adjustments and therefore affect financing flows to the region. Currency depreciations can also have adverse effects in some Latin American and Caribbean countries that have currency mismatches in public and/or private debt. Even though that average inflation rate is in a downward trend in the region, the depreciation of national currencies can produce increases in domestic inflation rates, inducing central banks in the region to increase interest rates. The possible pass-through of depreciation may reinforce the future upward pressure on domestic interest rates produced by future Fed rate increases. After a long period of exceptionally abundant liquidity and very low interest rates, the increase in the Fed's rate, together with the unwinding of the QE, will increase the external cost of financing for the region. It is expected that this increase will happen at a slow pace. On the one hand, the Fed is planning to proceed slowly and avoid surprises, and on the other hand, the Bank of England, the Bank of Japan and the European Central Bank are all expected to maintain liquidity abundant in the medium term."

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

National Reserve of Copper and Associates, or Renca reserve, Reuters reported. The reserve is roughly 17,800 square miles, or slightly larger than the size of Denmark. The reserve was established in 1984 and covers parts of the

northern states of Amapá and Pará. Renca was created to preserve a section of the Amazon rainforest that is believed to contain significant deposits of gold, copper, iron ore and other minerals from the perceived threat of foreign

NEWS BRIEFS

Colombian Air Force Kills Dissident FARC Leader

Colombia's air force has killed dissident FARC leader Euclides Mora, Colombian President Juan Manuel Santos announced Wednesday via Twitter. Santos added a warning to other dissidents: "Turn yourselves in or expect prison or the grave." Mora was kicked out of the FARC rebel group in December along with four other leaders after refusing to agree to the terms of the peace deal signed with the government in November, BBC News reported.

Britain Seeking New Trade Deals With Peru, Colombia, Ecuador

British officials are in talks with Peru, Colombia and Ecuador to form new trade deals based on existing agreements with the European Union, following last year's vote in Britain to withdraw from the European Union, the British Embassy in Lima said Wednesday, Reuters reported. Britain is looking to strike new trade deals around the world ahead of its scheduled departure from the 28-country body. British Minister for Trade Policy Greg Hands was in Lima on Wednesday to meet with Peruvian Trade Minister Eduardo Ferreyros, the embassy said. Other British officials have met recently with their counterparts in Ecuador and Colombia.

At Least 14 Killed in Attack at Mexican Drug Rehab Center

At least 14 people were killed and eight were injured on Tuesday at a drug rehabilitation center in the Mexican city of Chihuahua when assailants armed with assault rifles opened fire at the facility, local police said, Agence France-Presse reported. In the past decade, at least a half dozen attacks have taken place at drug rehabilitation centers, usually perpetrated by gang members looking to target rivals hiding in the centers, authorities said.

miners in the 1980s. The Amazon is the world's largest rainforest, and the preservation of the forest is seen as essential to fighting global warming by absorbing CO2 emissions that lead to climate change. The government said it would revisit the issue of the mining ban at a later date. In the past, the government had argued that lifting the ban would help boost the economy and would lead to better oversight over the area, where there are estimated to be more than 1,000 people illegally mining. "Brazil needs to grow and create jobs, attract mining investment and even tap the economic potential of the region," the Mines and Energy Ministry said in a statement.

POLITICAL NEWS

Trump Waives Shipping Restrictions to Aid Puerto Rico

Facing pressure from members of Congress and officials in Puerto Rico, U.S. President Donald Trump has temporarily waived a law that requires items moved between U.S. ports to be carried by U.S.-flagged ships. White House Press Secretary Sarah Sanders announced the



Rosselló // File Photo: Commonwealth of Puerto Rico.

decision to waive the century-old Jones Act Thursday morning in a tweet. Trump made the decision at the request of Puerto Rico Governor Ricardo Rosselló, said Sanders. Officials including Senator John McCain (R-Ariz.) urged the Trump administration to waive the law in order to speed relief supplies to the hurricane-stricken U.S. territory. The Trump administration earlier this week said there was no need to waive the law, with Customs

and Border Protection saying U.S. vessels had "sufficient capacity" to move supplies to Puerto Rico, Reuters reported.

New Prosecutor Vows to Continue Brazil 'Car Wash' Probe

Brazil's new prosecutor general, Raquel Dodge, on Tuesday said she is committed to continuing the "Operation Car Wash" corruption probe previously led by her predecessor, Rodrigo Janot, Reuters reported. The sprawling investigation, which centers on Brazilian construction conglomerate Odebrecht and state-owned oil company Petrobras, has implicated dozens of Brazilian politicians, including President Michel

Dodge did not comment on the charges against Temer except to say she would not withdraw them.

Temer, and has spurred spin-off investigations in countries throughout the world where Odebrecht has operated. During her first news conference since taking office last week, Dodge declined to comment on charges that Janot filed against Temer, but said she would not withdraw them. Janot charged Temer with obstruction of justice and with being a member of a criminal organization, just days before the end of his term as prosecutor general. The charges were based on a plea-bargain testimony by owners of meatpacking giant JBS. Janot later revoked the plea deal for JBS' owners once evidence emerged of the two owners having committed additional crimes. Dodge said revoking the plea deal did not erase the evidence the testimony provided, including the evidence against Temer. The lower house of Congress, which must vote on whether a president should stand trial for alleged crimes, began discussing the new charges on Tuesday. The body is expected to block the charges, as it did last month when discussing a graft charge brought earlier against Temer.

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A James Bosworth, founder of Hxagon and author of *Bloggings By Boz*: “AMLO’s comments on the oil sector were frustratingly vague, leaving observers with the impression that he could undo energy reform completely or just tweak around the edges. That vagueness gives his most militant supporters hope for radical change while allowing his more moderate supporters to believe he will find a market-friendly compromise with foreign businesses. It’s quite likely that AMLO himself is strategically ambiguous as an electoral position and doesn’t yet know what he will do if elected. He is still listening to and being influenced by a large group of individuals pulling him in various directions. His comments about reviewing oil contracts come in the wake of several large corruption scandals including allegations that the former head of Pemex took millions in bribes from Brazil’s Odebrecht. The Mexican public is furious with the political class about corruption, and it has become a key electoral issue. With AMLO so vocal about the energy issue, this anti-corruption climate may push more market-friendly candidates to also consider reviewing contracts. Foreign companies should welcome a reform process by any administration that cleans up and creates transparency in the bidding on contracts while punishing those who previously cheated in order to gain an upper hand.”

A RoseAnne Franco, head of Oil & Gas Risk at Verisk Maplecroft: “Despite the uptick in oil and gas tenders in Latin America anticipated over the next 12 months, we expect Mexico to remain well positioned vis-à-vis peers in the region. For foreign operators, the country’s large hydrocarbon potential and its opportunities are diverse, including deepwater, tight oil, heavy oil and unconventional plays, among others. Andrés Manuel López Obrador did mention his intention to

review contracts in his Sept. 5 speech in Washington. However, the larger context was also telling—he cited the recent corruption allegations involving Odebrecht and Pemex totaling a reported \$10.5 million in bribes. An anti-graft agenda has been a continuous theme in López Obrador’s campaigns over

“ [López Obrador’s stated review of existing contracts does not imply contract revision.”

— RoseAnne Franco

the years; given the escalation in high-profile cases and growing legal autonomy in other jurisdictions (e.g., Brazil) it’s no surprise that the candidate would once again revisit the issue. However, his stated review of existing contracts does not imply contract revision. Moreover, Mexico City has signed a number of international agreements relating to investment disputes to ensure that businesses’ property rights are respected. While the left-of-center candidate could slow down the pace of development in oil and gas projects in Mexico, we believe that stagnant hydrocarbon output in the near term and the fragmented status of the legislature will insulate the sector from any energy reform ‘snapback.’ And over the medium term, we expect competitiveness in Latin American oil and gas to accelerate through 2022 as governments vie for investment dollars—and an AMLO government would not be immune to these pressures.”

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

LATIN AMERICA ENERGY ADVISOR is published weekly by the Inter-American Dialogue
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Latin America Energy Advisor is published weekly, with the exception of some major U.S. holidays, by the Inter-American Dialogue
1155 15th Street NW, Suite 800
Washington, DC 20005 **Phone:** 202-822-9002
www.thedialogue.org
ISSN 2163-7962

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