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FEATURED Q&A

Can Peru Reach 100% Electrification in the Next 5 Years?



The head of Peru's Ministry of Energy and Mines, Cayetana Aljovín, said it would cost more than \$1 billion for Peru to reach its goal of 100 percent electrification of rural areas. // File Photo: Peruvian Government.

Q Peru in early October set a target to provide electricity to 100 percent of rural residents by 2021. The head of the country's Ministry of Energy and Mines, Cayetana Aljovín, estimated it would cost Peru some \$1.05 billion to close the electrification gap in the country. What infrastructure will Peru have to build in order to realize this goal? What barriers are there to achieving 100 percent electrification? What effects will the project have on Peru?

A Luis Fernández Pérez, managing partner at Gas Energy Latin America: "This is not the first time that the Energy Ministry has announced a target of 100 percent electrical coverage in rural areas. This target is almost impossible to achieve in Peru, even in urban zones, because of the absence of long-term urban growth plans and continuous illegal settlements without basic services. This is a political message to show concern about rural zones; there has already been a government policy since 2011 to try to get as near as possible to 100 percent coverage, but we have estimated that complete coverage will require at least \$3 billion and will take more than four years to complete. Isolated rural populations are far from the cities and live in dispersed small communities across a country that is 1.3 million square kilometers. In November 2014, Ergon Power won the first bidding process to install 3,554 photovoltaic systems off-grid to connect 500,000 homes in isolated communities in southern Peru. PV modules with capacities of 120 watts for homes, 600 watts for health centers and 1,200 watts for schools were proposed. In our view, a serious electrification program should include at least 2 kilowatts per home and thus, as mentioned

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TOP NEWS

OIL & GAS

Argentina's YPF Eyes Investment of More Than \$30 Bn

Argentine state-run energy company YPF said it plans to invest more than \$30 billion over the next five years in the country's energy sector.

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POWER SECTOR

Puerto Rico Contract Given to Small Firm

A \$300 million contract to help rebuild Puerto Rico's energy sector was awarded to two-year-old Montana-based Whitefish Energy Holdings, sparking calls for an investigation from congressional Republicans and Democrats.

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OIL & GAS

Prosecutor Probing Former Pemex CEO Fired

Santiago Nieto was fired two days after he told a local newspaper that the head of Pemex from 2012 to 2016, Emilio Lozoya, sent him a letter pressuring him to publicly declare him innocent of any wrongdoing.

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Nieto // File Photo: Mexican Government..

OIL & GAS SECTOR NEWS

Argentina's YPF Eyes Investments of More Than \$30 Bn

Argentine state-run energy company YPF on Wednesday said it plans to invest more than \$30 billion over the next five years to boost the country's energy sector, The Wall Street Journal reported. The company is planning to increase



Macri // File Photo: Argentine Government.

oil and gas output by 5 percent annually through 2022 to 700,000 barrels of oil equivalent per day, and it aims to drill more than 1,600 wells in order to facilitate conventional oil output. The company is also planning to invest heavily in the Vaca Muerta shale formation, one of the world's largest shale oil and gas fields. YPF is aiming to increase unconventional output by 150 percent, and to have shale oil and tight gas make up half of the country's total production. The decision to ramp up investment came after President Mauricio Macri's Cambiemos coalition won sweeping victories in Sunday's midterm elections, bolstering its presence in Congress and likely giving Macri's agenda a boost in the next two years of his presidency.

Venezuela Fails to Make Two Bond Payments

Venezuela failed to make two bond payments over the weekend, raising its unpaid debt to \$586 million days before two hard-and-fast

debt deadlines, CNBC reported Monday. The oil-exporting country has been suffering from a protracted economic crisis, with severe shortages of food and basic necessities, high inflation and street protests. The latest missed debt payment may in fact indicate that the government is saving up to make the \$841 million plus interest debt payment due Friday on a bond issued by state oil company PDVSA. The oil company is using its Houston-based refining and retail subsidiary, Citgo, as collateral against the bond. Next week, a \$1.2 billion PDVSA bond is maturing. However, unlike the missed payments this month, the two upcoming payments do not have grace periods and must be paid by their due date. Some analysts have said that recent U.S. sanctions might make it difficult for the Venezuelan government to transfer payments through the international financial system, but others have said that the government will likely be able to make the upcoming deadlines.

Prosecutor Probing Former CEO of Pemex Is Fired

The top prosecutor in the electoral-crimes division of Mexico's attorney general's office was fired on Oct. 20 while investigating whether the former head of state oil firm Pemex received bribes that were later used to finance the presidential campaign of President Enrique Peña Nieto, The Wall Street Journal reported. Santiago Nieto was fired two days after he told a local newspaper that the head of Pemex from 2012 to 2016, Emilio Lozoya, sent him a letter pressuring him to publicly declare him innocent of any wrongdoing. The attorney general's office said Nieto, who is not related to the president, was fired for breaching an internal code of conduct, though the office gave no further details on the matter. The office earlier this year opened an investigation into alleged bribes paid to the state oil company by Odebrecht after the Brazilian construction conglomerate reached a \$2.6 billion settlement with U.S. authorities in December in which it admitted to giving bribes and engaging in other corrupt

NEWS BRIEFS

Ecuador Seeking to Renegotiate Oil Deals With Chinese Firms

Ecuador's government wants to renegotiate several oil deals with Chinese firms in order to get higher prices for the country's crude exports, Byron Ojeda, the head of state-owned Petroecuador said Tuesday, Reuters reported. Ecuador ships approximately half of its oil to China under deals signed by former President Rafael Correa. Ecuador also wants to reduce its oil exports to China, said Ojeda.

Nicaragua Officially Backs Paris Climate Deal, U.S., Syria Only Outliers

Nicaragua has officially backed the Paris climate agreement, leaving the United States and Syria as the only countries not in support of the global accord, Reuters reported. Vice President Rosario Murillo said Nicaragua's government presented the relevant documents to the United Nations. Nicaragua was the only country to reject the pact in 2015, arguing instead that far stronger measures need to be taken worldwide to combat climate change. The accord seeks to limit the effects of climate change by curbing global emissions of carbon dioxide and other gases believed to contribute to a rise in the earth's temperature.

Ecuador to Ask OPEC for Exemption on Production Limits

Ecuadorian Oil Minister Carlos Pérez on Thursday said the South American country plans to ask the Organization of Petroleum Exporting Countries, or OPEC, in November for an exemption on production limits, citing fiscal problems because of low crude prices, Reuters reported. Ecuador is OPEC's smallest member state and hopes to increase its production by 50,000 barrels per day next year.

practices throughout Latin America. Former Odebrecht officials admitted to giving some \$10 million in bribes to Lozoya in exchange for contracts, according to leaked documents from

The attorney general's office said Nieto was fired for breaching an internal code of conduct.

Brazil's Supreme Court that were published earlier this year. Some \$4 million was paid to Lozoya from April to November 2012 when he was serving as a top campaign official to Peña Nieto before he was elected, according to Odebrecht officials' testimony. Lozoya has repeatedly denied the allegations.

POWER SECTOR NEWS

Lawmakers Probing Puerto Rico Contract Given to Small Firm

A \$300 million contract to help rebuild Puerto Rico's energy sector in the wake of Hurricanes Irma and Maria was awarded to two-year-old Montana-based Whitefish Energy Holdings,



Zinke // File Photo: @SecretaryZinke on Twitter.

sparking calls for an investigation by congressional Republicans and Democrats, USA Today reported Wednesday. The company, which had only two employees at the time of the hurricane and is relatively inexperienced compared to

other companies that might have been selected for the job, is based in Interior Secretary Ryan Zinke's hometown of Whitefish, Mont., raising questions as to how the company secured such a lucrative contract. Also, Zinke's son had previously held a summer job at a Whitefish Energy construction site. On Tuesday, the House Natural Resources Committee chairman said the committee would be looking into the contract, The New York Times reported. Also on Tuesday, Senator Maria Cantwell (D-Wash.) asked the Government Accountability Office to investigate the circumstances surrounding Whitefish's contract. Puerto Rican opposition Senator Eduardo Bhatia called the awarding of

the contract to Whitefish "absolutely outrageous." He said the Puerto Rico Electric Power Authority did not appear to have made any open requests for proposals, to have performed background checks or to have followed the normal safeguards and checks before awarding the company the contract, The New York Times reported. Interior Department and company officials said Zinke had not helped Whitefish to obtain the contract. In related news, the U.S. Senate passed a \$36.5 billion hurricane relief bill on Tuesday that gives Puerto Ricans access to \$4.9 billion in low-interest Treasury loans to help aid in recovery efforts, Bloomberg News reported.

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before, the investment required must be three times higher than the one indicated by the ministry. To approach a target near 100 percent is possible with a serious off-grid

“This target is almost impossible to achieve in Peru, even in urban zones.”

— Luis Fernández Pérez

plan, identifying all places to cover, a transparent bidding process and rapid license and permission process. There is no doubt that this will have an important social impact on the quality of life or rural populations.”

A Jaime E. Luyo, academic director of the PhD Energy Program at the Universidad Nacional de Ingeniería: “In the Rural Electrification Plan (REP) published by the Ministry of Energy and Mines in December 2015, it is projected that by the year 2025, electricity will reach 3.4 million rural inhabitants, reaching a rural electrification coefficient (REC) of 99.8 percent, but by 2021 there will be almost half a million people without electricity. The ministry reports that the REC went from 29.5 percent in 2007 to 78 percent in

2015. We believe that this great jump is due to the larger investments in rural electrical infrastructure and, above all, due to the effect of the massive installation of photovoltaic panels in isolated areas with the limitation that only the need for lighting and entertainment (watching TV) is solved, since the reduced capacity of the panels does not allow the carrying out of productive activities; that is, the REC must be corrected for being overestimated. The REP has planned for the period between 2016 and 2025 to install 500,000 panels, approximating the REC to 100 percent with an investment of \$400 million and a total for the rural sector of \$1.2 billion to close this electrification gap, but we believe it will not solve the problem of rural poverty. Difficult barriers with isolated communities and in wooded areas of the Amazon, new micro-grids and distributed generation technologies with renewable energy resources must be introduced, so that in the medium and long term these poor populations do not depend on a cross subsidy. To achieve the goals of the REP, the government should rethink using new energy technologies and an affordable price policy, avoiding the subsidies and surcharges that currently distort electricity prices, which reflects that the residential tariff in Peru is one of the most expensive in South America, while industrial tariff is the opposite.”

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POLITICAL NEWS

Brazil's Temer Again Avoids Trial on Corruption Charges

For the second time this year, Brazilian lawmakers on Wednesday voted to spare President Michel Temer from a corruption trial before the country's Supreme Court, despite his deep unpopularity among Brazilians, the Associated Press reported. To avoid being suspended from the presidency and facing trial on charges of obstruction of justice and heading a criminal organization, Temer needed the support of more than a third of the 513 members of the lower house of Brazil's Congress. He reached the required number of votes approximately two hours into the voting. The final vote tally was 251 in support of Temer and 233 against him. The rest were abstentions and absences. Temer survived a similar vote on a bribery charge in August. "This accusation is fragile, inept and worse than the first one," said lawmaker Celso Russomanno, who voted to support Temer. However, lawmaker Luiza Erundina voted against the president, saying, "I vote with more than 90 percent of Brazilians who have already convicted Temer's corrupted administration." Temer spent weeks building support through giving out local projects, favorable decrees and sought-after positions. Earlier on Wednesday, Temer was briefly hospitalized due to a urinary tract infection, but he later emerged from the hospital smiling and giving a two thumbs up sign.

Argentina's Macri Vows Reforms After Legislative Victories

Argentine President Mauricio Macri said Monday that he will push more sweeping reforms after his center-right coalition won big victories in the country's midterm legislative elections on Sunday, the Associated Press reported. Macri's Cambiemos coalition did not

ADVISOR Q&A

Will U.S., Mexican and Canadian Negotiators Be Able to Rework NAFTA?

Q The fourth round of negotiations for the North American Free Trade Agreement, or NAFTA, ended on Oct. 17 with U.S., Mexican and Canadian negotiators deciding to prolong the talks through next March, abandoning their goal of reaching an agreement by year-end. Will negotiators be able to strike a deal amenable to all three countries? Will Trump administration demands, blasted as "poison pill" proposals by the head of the U.S. Chamber of Commerce, doom the talks? How will next year's U.S. midterm elections and Mexico's presidential election affect the renegotiations? If NAFTA disappears, what would be the consequences for North America's businesses and economies?

A James R. Jones, chairman of Monarch Global Strategies: "Answers to these questions depend on what happens to the yet-unknown Republican tax proposal. The Trump administration has yet to score a victory on any of President Trump's campaign promises, with his biggest defeat being the pledge to 'repeal and replace Obamacare.' Now the White House and Republican Congress are fully focused on tax reform/cuts that they want to complete before the end of the year. If the tax legislation passes, that will be considered a big win for Trump. Since U.S. Trade Representative Lighthizer was the one who asked for the four-month extension into next year of the NAFTA negotiations, it indicates that the United States would like to

see a new NAFTA completed. I can see compromises even among the more radical U.S. proposals, so that a successful conclusion can be reached early next year. But if the tax proposal also fails, I suspect the president will notify his intention to withdraw from NAFTA and call that a big win. In that case, several lawsuits could be expected to determine whether the president has authority to withdraw or whether a vote from Congress is also required. So NAFTA will be in limbo for several months before a legal opinion is final. That time of uncertainty probably will see a dip in cross-border economic activity, while companies make alternative supply arrangements and adjust to new realities. If the United States ultimately leaves NAFTA, Mexico will suffer some short-term negative economic effects, but I expect it will bounce back fairly quickly as it utilizes its many free-trade agreements to establish new economic relationships to replace the significant amount of trade it does with the United States under NAFTA. It would be a shame if such a scenario happens. North America is the richest area in the world for labor and natural resources. If we continue to integrate our economies without sacrificing sovereignty through extending and improving NAFTA, we will continue to be the dominant economic force for decades to come."

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

win control of Congress in the balloting, but it will have the largest bloc. Macri told reporters that he plans tax, education and labor reforms, though he did not give more specific details. "We need to make many reforms," said Macri.

"We've done some already ... but looking ahead, there's still a lot to be done." Macri, who took office in December 2015, has had an agenda of free-market reforms. However, his policies to hike utility rates, eliminate tariffs to

NEWS BRIEFS

Colombia, ELN Begin Fourth Round of Talks in Ecuador

The Colombian government and the National Liberation Army, or ELN, rebel group, the last active rebel group in the country, began their fourth round of peace negotiation talks on Wednesday in Quito amid a cease-fire between the two sides, Agence France-Presse reported. At the end of the third round of talks in September, the two sides agreed to a historic cease-fire that began on Oct. 1 and will last until January.

Pablo Neruda Didn't Die of Cancer: Forensic Experts

Pablo Neruda did not die of cancer, as was originally believed, a group of forensic experts who analyzed samples of the Chilean poet's remains said on Oct. 20, The New York Times reported. The announcement is likely to increase speculation that Neruda, a former diplomat and a senator from the Communist Party, was murdered. He died at age 69 in 1973, just two weeks after a military coup overthrew President Salvador Allende and launched a dictatorship that would span nearly two decades. In 2011, Neruda's former driver said that doctors at the clinic in Santiago where Neruda was being treated for cancer poisoned him.

Peru's Congress Legalizes Medical Marijuana

Peru's Congress on Oct. 19 passed legislation that legalizes medical marijuana in a 68-5 vote in favor of allowing cannabis oil to be produced, imported and commercialized, Reuters reported. President Pedro Pablo Kuczynski proposed the legislation after police caught a group of mothers illegally producing cannabis oil in a makeshift laboratory in order to treat their epileptic children. The regulations for producing and commercializing the oil will be written in 60 days, said ruling party lawmaker Alberto Belaunde.

protect local industry, as well as his layoffs of state workers, have led to labor unrest. "The Argentine electorate has greenlighted President Macri's reform agenda, giving his 'Cambiamos' [Let's Change] coalition a convincing victory across the country in yesterday's midterm elections," Jimena Blanco of risk consultancy Verisk Maplecroft said Monday.

ECONOMIC NEWS

Mexico's Inflation Slows in First Half of October

Mexico's inflation slowed in the first half of October, continuing a steady drop since August's peak as prices for agricultural produce helped to offset a jump in energy prices, The Wall Street Journal reported Tuesday. The annual inflation rate dropped to 6.3 percent from 6.35 percent at the end of September, due to a 0.62 percent increase in the consumer-price index during the first two weeks of the month, the National Statistics Institute said. Inflation had reached a 16-year high in August of 6.66 percent, affirming the central bank's decision to hold its interest rate steady during its two previous policy meetings after a streak of overnight-rate hikes. The central bank expects consumer prices to ease through the rest of the year, and it expects inflation to return to its 3 percent target by the end of next year. Increases in energy costs were the strongest factor contributing to inflation, as subsidies in 15 cities which are designed to help Mexicans pay for air-conditioning costs came to an end with the close of the summer season. Public transportation costs and telecommunications costs also increased after a drop in costs in September following a deadly earthquake that led lawmakers to waive fares for the city's subway system and led the country's telecommunications companies to provide free phone calls, as well as messaging and mobile data services, so that anyone could use their phones to communicate in the aftermath of the crisis. Agricultural prices rose 1.52 percent during the first two weeks of this month.

Brazil Pension Reform May Not Pass by Year's End: Temer

Brazilian President Michel Temer on Oct. 20 said legislation overhauling the country's popular but costly pension system may not pass Congress by the end of this year as originally projected, Reuters reported. Reforming the system is seen as key to reducing the country's deficit, but changes, including raising the retirement age, have so far been unpopular with Brazilians. Temer said the delay was due to charges in a corruption case that held up his legislative agenda. He added that the government was considering watering down



Temer // File Photo: Brazilian Government.

the legislation in order to convince more lawmakers to pass the bill, confirming that the government would accept a bill that changes the minimum retirement age at least to 65 from the current 55.

Brazilian Central Bank Slashes Key Interest Rate

Brazil's central bank on Wednesday slashed its benchmark Selic interest rate by 75 basis points, to 7.5 percent, close to its lowest level ever, The Wall Street Journal reported. A quick slowdown in price increases has allowed policymakers to lower the Selic rate from 14.25 percent over the past year. Brazil's annual inflation rate was 2.5 percent last month, below the central bank's 4.5 percent target.

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A César Gutiérrez Peña, director at Utilities Peru and former president of Petroperú: "In order to universalize electricity coverage, which today reaches 95 percent of the population, some 368,000 new connections will need to be incorporated, according to Peruvian Mining and Energy Minister Cayetana Aljovín, and will require some \$1 billion, or an average of \$250 million annually. The goal is good in theory, as it is a service that would help facilitate social inclusion to about 1.4 million people. The challenge, however, will be disposing of the resources, which according to the rural electrification law have to come from various private and state resources. The former originate from the utilities of electricity sector operators, which are deducted from income tax. Citizens also contribute to a percentage of the monthly billing by consuming electricity, and this complements the basis of the government's general budget. When one reviews the annual budget, it can be concluded that there will be a deficit of about \$120 million annually, which has to be covered by resources from the public treasury, which has serious limitations, given the drop in revenue that led us to a fiscal deficit of the order of 3 percent this year. The challenge will be finding the funds to make the goal of 100 percent coverage become a reality."

A Emilio Zúñiga, vice president at Latin Pacific Capital: "The Ministry of Energy and Mines' proposal is a great challenge to the government. The main barriers are due to our fragile and small local institutions, geographic difficulty in reaching very small populations in the highlands, and the program needs a very careful organization and efficient execution. Last year, 40 rural electrification projects were delivered, and for 2017 the target is 98. The budget for 2017 doubles the 2016 budget at \$100 million, which is big improvement, if the goal is met. The 2021 target is a very ambitious, since it plans to spend \$200 million, however last year the planned target was in 2025. One of the challenges is the different ways to provide electricity to these populations. The government should consider building transmission lines from the network nearby, focusing on small power generation and investing in solar panels for very small and isolated populations. As for the effects, this infrastructure is key to including the poorest populations into the 21st century, and all the benefits will be derived from that."

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

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