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FEATURED Q&A

How Can Argentina Attract and Keep Oil Investment?



Argentine President Mauricio Macri has in recent months enacted reforms aimed at attracting investment to the country's energy sector. // File Photo: Argentine Government.

Q Chinese oil company Sinopec is reportedly willing to sell its oil assets in Argentina at a loss of approximately \$1.5 billion, citing worsening economic conditions in Argentina, financial losses and labor issues. The decision comes despite recent reforms made by the administration of President Mauricio Macri aimed at making the country's oil sector more business-friendly, including brokering a deal with labor unions in order to calm tensions and lower production costs. Why is Sinopec leaving Argentina's oil sector? Are the Macri administration's energy-sector reforms failing to keep investors in Argentina? What can Argentina's oil sector offer that will attract international investors moving ahead, and what more could the Argentine government do to bring in more investment?

A Juan Cruz Díaz, managing director at Cefeidas Group in Buenos Aires: "Sinopec is undertaking a strategic review of its assets and actively looking for opportunities to sell or find a partner at some of its non-core assets in Argentina. Most of the assets Sinopec is offering are located in the San Jorge Gulf, where labor conflict in the oil industry is particularly high. However, Sinopec's recent decision is in large part a response to the ongoing weakness of international oil prices and company strategy, and it is probably not reflective of the overall operating environment for oil companies in Argentina. Nor is it indicative of a failure of the Macri government to deliver on its reform promises. At the same time that it is seeking to shed assets in the San Jorge Gulf (a mature hydrocarbons basin, where declining production makes operations less economic), Sinopec, a leading producer of

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TOP NEWS

OIL & GAS

12 Dead in Mexico Fuel Theft Feud

Authorities in Mexico said that 12 people were killed in Puebla State as rival gangs of fuel thieves fight over territory. Fuel pipeline theft is a growing problem in Mexico, with regular shootings between gangs, police and soldiers.

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OIL & GAS

Top PDVSA Exec Among Those Held for Corruption

A top official at Venezuela's PDVSA as well as 10 other executives at the state-run oil company have been arrested on charges of graft as part of a corruption probe.

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POWER SECTOR

Puerto Rico's Governor Calls for Cancellation of Controversial Deal

Puerto Rico Governor Ricardo Rosselló called for the immediate cancellation of a \$300 million contract that was awarded to Whitefish Energy Holdings to help restore power to the hurricane-battered U.S. territory.

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Rosselló // File Photo: Commonwealth of Puerto Rico.

OIL & GAS SECTOR NEWS

Number of Dead in Mexico Fuel Theft Feud Rises to 12

Authorities in Mexico said Tuesday that 12 people have been killed in Puebla State as rival gangs of fuel thieves fight over territory, the Associated Press reported. Three men and a woman were slain at a hospital in the state capital. Another man was shot dead while driving in the suburb of Chachapa, and two more were killed while riding in a truck in the municipality of Amozoc de Mota. Fuel pipeline theft is a growing problem in Mexico, with regular shootings between gangs, as well as police and soldiers. Last month, state oil company Pemex said it had fired several warehouse and distribution center workers in Guanajuato State as part of the company's strategy to crack down on oil theft, Reuters reported. In July, federal prosecutors arrested the mayor of Palmar de Bravo, a town that has been dominated by fuel thieves who have drilled into state-run pipelines to steal gasoline and diesel. The government estimates that the state oil company sees at least \$1 billion in losses per year due to oil theft by criminal groups. [Editor's note: See related [Q&A](#) in the June 23 issue of the Energy Advisor.]

Top PDVSA Executive Among Several Held in Corruption Case

A top official at Venezuela's PDVSA as well as 10 other executives at the state-run oil company have been arrested on charges of graft as part of a corruption probe that is implicating a growing number of its top executives, Venezuela's prosecutor said Oct. 26, Reuters reported. Orlando Chacín led a PDVSA subsidiary in charge of joint ventures with foreign partners. He had been the right-hand man of Eulogio Del Pino, the former president of PDVSA and the current oil minister. The other executives

who were arrested, including at the Petropiar and Petrozamora joint ventures with U.S. oil company Chevron and Russia's Gazprombank, allegedly participated in schemes including overpricing and non-execution of planned projects, according to prosecutor Tarek Saab. President Nicolás Maduro has long vowed to combat corruption, which has plagued the country's oil sector for decades. Opposition leaders, however, say arrests attributed to anti-corruption efforts are often more the



Chacín // File Photo: PDVSA.

result of infighting among rival factions in the government than a sign of a concerted effort to combat corruption. In related news, Spanish police on Oct. 26 arrested a former deputy Venezuelan energy minister on a U.S. warrant for his alleged involvement in a \$1 billion bribery scheme involving PDVSA, The Wall Street Journal reported. Nervis Villalobos was arrested by a police unit specializing in money laundering crimes. He would be the first former top official detained as part of a wide-ranging U.S. probe into corruption at PDVSA. The probe has already led 10 businessmen to plead guilty for their roles in a kickback scheme to Venezuelan officials.

Mexico's Pemex Posts \$5.6 Billion Loss for Third Quarter

Mexican state oil company Pemex posted a loss of 101.8 billion pesos (\$5.6 billion) in the third quarter, 14 percent lower than its 118 billion-peso loss during the same period last year, but breaking a three-quarter streak of posting no losses, Reuters reported Friday.

NEWS BRIEFS

Peru Indigenous Group Ends Oil Block Protest

Indigenous activists on Tuesday ended a 43-day protest that halted production in Peru's largest oil block after signing a deal with the government, Reuters reported. Under the deal, the administration of President Pedro Pablo Kuczynski will use an indigenous rights law before awarding any new, long-term oil drilling contract for Block 192, the energy and mines ministry said. Protesters demanded that the government clean up oil pollution and include tribes in talks on long-term oil drilling plans.

Argentina to Begin Construction of Two Nuclear Reactors

Argentina's government is planning to begin the construction of two new nuclear reactors next year at a cost of \$13 billion over 10 years, Reuters reported Tuesday, citing Juan Gadano, the country's undersecretary of nuclear energy. Canada-based SNC-Lavalin's Candu Energy unit and Argentine state nuclear company NASA will build one of the reactors, a 720-megawatt facility. China National Nuclear Corp. is to build the second reactor, the 1,150-megawatt Hualong One project. Argentina currently has three heavy-water nuclear reactors, which generate about 5 percent of the country's electricity.

World Bank Approves Two Haiti Energy Grants

The World Bank has approved two grants, totaling \$35 million, to improve access to electricity for as many as two million Haitians and also increase renewable-energy investments in under-served areas of the country, the Jamaica Observer reported Oct. 27. Haiti is working to create an environment that would encourage private investment in renewables, said Anabela Abreu, the World Bank's country director for Haiti. Only one in three Haitians has access to electricity, according to the World Bank.

The company said it was affected by a sharp drop in crude output. "Without a doubt, this was a very difficult quarter in many areas, but especially in terms of our operations," said Roberto Cejudo, Pemex's deputy treasurer. Average crude production during the period was just 1.88 million barrels per day, down by 12 percent year-over-year and the first time in decades that Mexico has seen three consecutive months of output below 2 million bpd. Natural gas output was also down during the July-September period, with Pemex posting 14 percent lower output at 14.09 million cubic feet per day. Pemex said the decline in oil and natural gas output could be attributed mostly to the natural disasters that battered Mexico during the quarter, including storms and two major earthquakes that hit the country in September. However, sales during the third quarter grew by 20.5 percent to 331 billion pesos, mostly due to a recovery in prices. [Editor's note: See [Q&A](#) on how Mexico's upcoming presidential election will affect the country's energy sector in the Sept. 29 issue of the Energy Advisor.]

POWER SECTOR NEWS

Puerto Rico's Governor Calls for Cancellation of Controversial Deal

Puerto Rico Governor Ricardo Rosselló on Sunday called for the immediate cancellation of a controversial \$300 million contract that was awarded to Montana-based Whitefish Energy Holdings to help restore power to the hurricane-battered U.S. territory, Reuters reported. The company is based in the hometown of U.S. Interior Secretary Ryan Zinke, and Zinke's son once worked for the company. The company only had two full-time employees at the time that the contract was awarded for the work to help restore electricity to Puerto Rico, a task requiring thousands of people. However, the interior secretary has denied having anything to do with the contract, which was awarded

without being put up for bids, Politico reported. "My petition to the board is to immediately invoke that cancellation clause for Whitefish and for us to move on," Rosselló said Sunday, Reuters reported. The governor added that no wrongdoing had been discovered, but said the contract had become a "distraction" amid the island's efforts at recovering from the recent hurricanes, The New York Times reported. "I am making this determination because it is in the best interest of the people of Puerto Rico," he added. The deal attracted scrutiny on Capitol Hill, as the House Committee on Natural Resources, which oversees Puerto Rico affairs, demanded that the island's power

authority hand over all records related to the contract. The Department of Homeland Security's inspector general's office also said it was investigating, and Rosselló said he had ordered an audit of the contract. Additionally, the board that Congress created to oversee the U.S. territory's financial affairs requested that a federal court appoint a new manager to oversee its power utility, The New York Times reported. The power authority's chief executive, Ricardo Ramos, defended the contract. However, he said Sunday that he understood the governor's decision to cancel it because of negative publicity and the political situation surrounding the contract on the mainland.

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unconventional gas in China, is evaluating opportunities to get involved in Argentina's promising Vaca Muerta shale play. A deal struck earlier this year with labor unions to lower production costs that applies only

“[Sinopec’s decision is not] indicative of a failure of the Macri government to deliver on its reform promises.”

— Juan Cruz Díaz

to Vaca Muerta was a positive step toward increasing the competitiveness of the country's unconventional oil sector. Additionally, the results of the recent midterm elections, in which Macri's Cambiemos coalition was the most voted electoral front nationwide, bode well for the promise of macroeconomic reforms (particularly tax and labor reform). While the perception of macroeconomic and regulatory problems may have affected the view of Argentina's business environment in the past, these reforms are capturing investors' attention and will help capitalize on interest in Vaca Muerta and in Argentina's energy sector, more broadly.”

A **Isabella Alcañiz, assistant professor in the Department of Government and Politics at the University of Maryland:** “The

exit of Sinopec from Argentina likely results from a combination of factors: today's oil prices, much lower than their 2010 level, when the company entered Argentina; the country's aging oil and gas infrastructure; and an antagonistic labor force. The Macri administration has attempted to attract foreign investment in the sector with a number of actions. Mainly, it has tried to do so by reducing subsidies and increasing energy rates, as well as negotiating with unions in the oil and gas producing provinces of Neuquén and Santa Cruz, to try to minimize the conflict that thwarts production. The Argentine government is promising more reforms and investments in the next two years. It seems these measures and promises have not been enough to keep the Chinese giant in the country. President Macri's party just had a significant victory in the midterm legislative elections, which should give the government some renewed credibility regarding promised future reforms to attract new investments in the sector. The biggest prize would be a law of labor market flexibility. However, with barely a third of Senate seats and 40 percent support in the lower house, it is unlikely that the Cambiemos government will be able to pass anything other than

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RENEWABLES NEWS

Chile's Antofagasta Eyes Shift Toward Renewable Energy

Chilean mining company Antofagasta is renegotiating its long-term energy contracts to shift toward using renewables as prices for wind and solar power drop, which could translate to significant savings for the copper miner, Reuters reported Monday. Antofagasta's CEO, Iván Arriagada, told the wire service that even though some of the company's energy contracts do not expire for another three to five years, the contracts allow for renegotiation if market conditions change. Before 2014, Chilean mines relied on coal and gas to power operations, but an influx of renewables projects in the country, along with a steady drop in prices for renewable energy, would mean copper miners could see significant savings on their energy bills. Arriagada said Antofagasta is hoping to replicate the success of the company's top-producing Los Pelambres mine, which relies on nonconventional renewable sources for approximately 45 percent of its energy needs. Arriagada said the company is looking at negotiating a move toward renewables for its three remaining mines in northern Chile. He said the company does not have a specific goal for the percentage of energy that would come from renewable sources, but that it "wouldn't surprise" him if more than 50 percent of the energy used at their mines came from renewable sources.

POLITICAL NEWS

FARC's 'Timochenko' to Seek Colombia's Presidency

Rodrigo Londoño, the leader of Colombia's demobilized FARC rebel group, will seek the country's presidency in next year's election, Co-

lombian daily newspaper El Tiempo reported, citing the FARC's new political party. The FARC signed a peace agreement with President Juan Manuel Santos' government nearly a year ago, formally ending their five-decade armed conflict, and completed a disarmament process this year. The group formed a political party, the Revolutionary Alternative Common Force, preserving its FARC acronym. Londoño, also

ADVISOR Q&A

Will Venezuela's Opposition Regroup?

Q Venezuelan opposition leader and former presidential candidate Henrique Capriles on Oct. 24 withdrew from the opposition Democratic Unity Roundtable, or MUD, highlighting a rift in the coalition. His move came after four out of the five opposition governors elected on Oct. 15 agreed to be sworn in by the country's pro-government Constituent Assembly after President Nicolás Maduro threatened to re-hold elections in the five states that elected opposition governors. What does Capriles' decision mean for the coalition's leadership, and what should be the MUD's strategy looking forward? How will the decision by the four opposition governors to be sworn in by the Constituent Assembly affect their relationship with the powerful body? Will the coalition mend fissures among its members or will a new opposition dynamic replace it?

A John F. Maisto, former U.S. ambassador to Venezuela and the Organization of American States: "The opposition's situation and options remain unchanged following 1) the election and launching of the National Constituent Assembly, widely considered in Venezuela and abroad to be illegal and unconstitutional, and 2) the stacked, manipulated gubernatorial elections held under that fatally flawed body and

the regime-loyal electoral tribunal. The next moves to be made by the opposition MUD (or a new coalition) and member political parties are now being plotted. Divisions continue, and once again, opposition leaders face tough political decisions ahead of the municipal elections in December and a presidential election next year. Their options remain: unite in the face of an authoritarian regime that will use its power to undermine the opposition's chances and not permit a level playing field, divide and participate, or boycott. Division most likely results in a regime victory; a boycott guarantees it. However, economic realities and the internal pressures they will produce, including from within Chavismo and the military, combined with unrelenting external pressures, missed debt payments, corruption revelations and further isolation, could change the political picture in ways no one can predict. And though a foreign mediation role is not out of the question, the one sure thing about the ongoing Venezuelan tragedy is that only the Venezuelans themselves can work something out, by mustering the political will in their time and in their way, in order to begin to get themselves out of this mess. Or not."

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

known as "Timochenko," suffered a stroke this year and was treated in Cuba, Reuters reported. Londoño and other former rebel commanders are likely to face human rights trials, and it is unclear how they would be able to serve in office if convicted. The tribunals that are to put former rebels on trial can hand out sentences of eight years, though those convicted will be able to avoid jail time and instead complete

NEWS BRIEFS

Hundreds March in Mexico City to Protest Violence Against Women

Some 200 women marched on downtown Mexico City Wednesday to protest the growing number of women who have been murdered in Mexico and to pressure the government to crack down on what they say is the rampant impunity that permits the violence, Reuters reported. Protesters held photos of murdered sisters, daughters and friends during protests throughout the city on the Day of the Dead. Femicide has risen by nearly a quarter on average under President Enrique Peña Nieto as compared to the previous administration.

Ecuador's Ruling Party Removes Moreno as Head

Officials with Ecuador's ruling party, the PAIS Alliance, on Tuesday removed the country's president, Lenín Moreno, as head of the party, El Comercio reported. Moreno's supporters called the action "rude" and "arbitrary." In his place, the party has chosen former Foreign Minister Ricardo Patiño to become its leader, while inviting former President Rafael Correa, with whom Moreno has split, to lead a process of restructuring of the party.

Illegal Gold Miners Burn Brazilian Government Buildings

Security has been increased in the Brazilian town of Humaitá in the Amazon region after illegal gold miners set fire to the offices of government environmental watchdogs, police officials said Sunday, Reuters reported. The miners set fire to buildings of Brazil's Environmental Protection Agency and the Chico Mendes Institute of Conservation of Biodiversity on Oct. 27, according to the military police. The attacks came after a government task force cracked down on illegal mining by burning about 20 boats worth \$20,000 each.

reparations, such as clearing land mines. Under the terms of the peace agreement, the FARC's new political party is guaranteed 10 seats in Congress through 2026. Among its candidates for Senate are ex-guerrilla commanders Iván



Londño // File Photo: Colombian Government.

Márquez, Pablo Catatumbo, Carlos Antonio Lozada and Victoria Sandino, the FARC said Wednesday in a statement. The FARC's political party also will run candidates in five districts for the lower house of Congress. The party added that it was willing to form a coalition with other leftist parties, which was seen as an acknowledgment of its lack of popularity among Colombians, the wire service reported. "We manifest our willingness to hold talks with all social political groups and movements to make united lists," the FARC said. More than 11,000 FARC rebels handed their weapons over to the United Nations during the demobilization process this year, but another 1,000 refused to disarm and are still engaged in drug trafficking and illegal mining activities. The government has authorized air raids against the dissidents, and the FARC has sought to distance itself from them.

ECONOMIC NEWS

Exports from Latin America, Caribbean to Grow 10 Percent

The value of exports from Latin America and the Caribbean will grow 10 percent this year, reversing five years of decline in the prices of the region's export basket, according to new estimates released Monday by the United Nations Economic Commission for Latin America

and the Caribbean, or ECLAC. The region's imports will also recover after four years of declining values, projected to grow 7 percent in 2017. Economic growth overall in the region is expected to rise 1.2 percent in 2017 and 2.2 percent in 2018 after two years of recession, Santiago-based ECLAC added. The commission warned, however, that the region lags behind other parts of the world in the trade in "modern services," such as those that have high value-added and are intensive in the use of information and communications technology, for example. Latin America and the Caribbean has been "a marginal actor" again this year in that category, with its participation in modern global service exports in 2016 comprising just 1.8 percent of global goods exported.

Argentina Rolls Out Major Tax Reform Proposals

The government of Argentine President Mauricio Macri on Tuesday announced plans to overhaul its tax code, including a significant cut to the corporate tax rate and unpopular new levies on certain types of alcohol, Reuters reported. In announcing the plan, Treasury Minister Nicolás Dujovne said the changes will make Argentina more competitive with other countries and reduce inequality at home. The plan would cut corporate income taxes to 25 percent from 35 percent for companies "willing to reinvest in Argentina" within five years, as well as reduce social security taxes on employers and eliminate taxes on certain bank transactions, The Wall Street Journal reported. The government plans to eliminate a 17 percent tax on cellphones, televisions and monitors, levies that have made electronics in Argentina significantly more expensive than in some other countries. Macri is expected to send the proposals to Congress within two weeks. The plan does not involve cuts alone. The government also plans to create a 15 percent capital-gains tax on certain financial transactions. The government wants to double taxes on private airplanes and expensive boats and motorcycles, as well as a 10 percent tax on wine and a 17 percent duty on champagne.

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menial legislation. Stagnated international oil prices further complicate the investment scenario for Argentina."

A **Diego di Risio, general coordinator at Observatorio Petrolero Sur:** "The latest press coverage states that Sinopec is seeking new partners for the oil projects to invest in gas at Vaca Muerta shale play. This maneuver responds to the Argentine policies' objective to boost unconventional gas, rather than oil. Vaca Muerta is among the biggest global shale plays, according to the Energy Information Agency. Since 2011, companies soured under the long-term exports horizon. Chevron, BP, Total, Shell, Cnooc, ExxonMobil, Wintershall and YPF are among the players. With ups and downs, foreign investment grows and supplies 20 percent of total gas, while other basins decrease participation. Economics is among the main reasons. Sustained by public subsidies and increases in energy tariffs (more than 400 percent in certain cases), more than \$21 billion has been transferred from the state and citizens to oil and gas companies. Other improvements include the deal with labor unions, new infrastructure and fracking's scarce environmental regulation. This trend raises critical questions. How will Argentina's

population endure the astronomic rise of energy tariffs? How will a surge of unconventional natural gas comply with the Paris Agreement? How will the population's rights be guaranteed in such a massive transformation? Answers will be needed. And, given

“It seems [the government's] measures and promises have not been enough to keep the Chinese giant in the country.”

— Isabella Alcañiz

its human rights implications, the last two were raised by the United Nations' Committee on Economic, Social and Cultural Rights in October. If the Argentine government's strategy does not take into account these implications, long-term sustainability will not be achieved—neither for the companies nor for the country."

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

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