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FEATURED Q&A

Will Canada's Oil Sands See Prosperity Ahead?



Some analysts have predicted smaller projects in Canada's oil sands, a drilling operation of which is pictured above. // File Photo: Canadian Association of Petroleum Producers.

Q Canadian oil companies Cenovus and Canadian Natural Resources beat market expectations in the third quarter, reporting higher output and lower costs at their oil sands projects in Alberta. However, some analysts have predicted smaller Canadian oil sands projects ahead, with lower production growth in the coming years amid relatively high production costs in a recovering oil-price environment. What is the future of the Canadian oil sands? What are the biggest trends shaping the industry there? Are Canada's oil sands a smart investment?

A Anthony Swift, director of the Natural Resources Defense Council's Canada Program: "The imperative of addressing climate change is driving a dramatic transformation of the global economy that has existential implications for the future of high-carbon fossil fuels sources like Alberta's tar sands. One of the clearest signs of this shift has come in the form of divestment by many of the largest multi-national oil producers who, despite significant investments in Alberta's oil sands, have recently divested their assets in the region. The oil majors who have either sold their assets in Alberta or divested from major portions of their oil sands operations include Statoil, Marathon Oil, Shell, ConocoPhillips, Total and ExxonMobil. This exodus from the tar sands totals \$24 billion in investments being offloaded over a five-month period. Persistent low oil prices have forced Canadian producers to undertake major cost-cutting efforts that have increased the efficiency of existing operations, but drastically scaled back production expansions that had been projected as recently as 2014. In addition, recent

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TODAY'S NEWS

POLITICAL

Honduran Officials to Recount Votes

Honduras' election commission said it would conduct a partial recount of votes from the country's presidential election. The commission still has not announced a winner from the Nov. 26 contest.

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ECONOMIC

Venezuela's Maduro Announces New Cryptocurrency

Venezuelan President Nicolás Maduro said the country would create a new cryptocurrency called the "petro," which would be backed by commodity reserves.

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POLITICAL

Silva Announces Run for Brazil's Presidency

Marina Silva, a former Brazilian senator and environmental minister, said she would seek the country's highest office in next year's election. She has run for president twice before.

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Silva // File Photo: Silva Campaign.

POLITICAL NEWS

Honduran Election Commission to Hold Vote Recount

Honduras' election commission on Sunday said it would recount some votes in the country's presidential election, a full week after voters went to the polls, as the country continued without a declared winner, CNN reported. Election officials on Sunday began reviewing ballots that showed irregularities, and the recount will be held under the scrutiny of the country's political parties as well as the media and international observers. "We feel that the Honduran people, as we said yesterday, deserve a result, and that result cannot be stopped or be in the hands of any presidential candidate or any party," the electoral commission's president, David Matamoros, told reporters. Opposition candidate Salvador Nasralla had an early lead when the first results were announced a week ago. But since then, Nasralla's lead has evaporated, while incumbent President Juan Orlando Hernández has taken the lead as the count has dragged on, with election officials blaming technical problems for the delays. With 95 percent of ballots counted, Hernández is leading Nasralla by two percentage points, according to election officials. Nasralla has accused Hernández of manipulating the results. The president has not responded to the accusation. Last Wednesday, the election commission's system shut down while the count was being conducted, and afterwards, ballots from 1,000 precincts were discovered to have irregularities. On Sunday, Nasralla told CNN that he would only accept the result if ballots from 5,000 precincts were re-examined. Election officials had planned a recount for Saturday, but both the ruling party and the opposition were supposed to be present for it, and the recount was delayed because the opposition failed to show up, said Matamoros. Protests erupted last Thursday amid concerns about fraud in the count. Demonstrations continued Friday and into the weekend. While protesters have burned tires, blocked roads and clashed with

police in Tegucigalpa, Sunday's protests were mainly peaceful, CNN reported. Thousands of Nasralla's supporters took to the streets of the capital. "It's a symbolic act, to show that we are marching for our children's future that is being stolen by corrupt politicians," said Raúl López, who was demonstrating with his wife and two young daughters. Nasralla was also on hand for the three hour march, shaking hands with supporters and kissing babies.

ECONOMIC NEWS

Venezuela's Maduro Announces New Cryptocurrency

Venezuelan President Nicolás Maduro on Sunday announced that Venezuela would create a cryptocurrency called the "petro," which would be backed by oil, gas, gold and diamond reserves, Reuters reported. "The 21st century has arrived," Maduro said during his weekly televised broadcast. Though Maduro gave few additional details on the currency launch,



Maduro // File Photo: Venezuelan Government.

he said the petro would be used as a means of circumventing U.S.-led financial sanctions, saying it would help Venezuela to "advance in issues of monetary sovereignty, to make financial transactions and overcome the financial blockade." Opposition leaders criticized the move, saying the currency needs congressional approval in order to be created, and some cast doubt on whether the plan would even move forward, given the chaos of Venezuela's political and economic turmoil. The country's real currency, the bolívar, is rapidly losing value,

NEWS BRIEFS

Silva Announces Run for Brazil's Presidency

Marina Silva, a former Brazilian senator and environmental minister, on Saturday announced she would seek her party's nomination to run for president in next year's election, Reuters reported. Silva announced her plans to run for Brazil's highest office at a meeting of her Sustainability Network Party, or REDE, which is expected to nominate her at its national convention in April. Silva has run in two previous presidential elections, but has not advanced past the first round of voting.

Earthquake Cuts Power in Ecuador's Manabí Province

A 6.0-magnitude earthquake struck the coast of Ecuador Sunday morning, causing walls to crack and cutting electricity in the Manabí province, authorities said, Agence France-Presse reported. There were no immediate reports of casualties as a result of the quake. The earthquake struck in the same region as the quake that led to more than 600 deaths in 2016.

Relatives Protest Argentina's Response in Search for Missing Sub

Dozens of family members of the 44 crew members aboard the Argentine submarine that went missing on Nov. 15 marched through the streets of Mar del Plata, walking away from a naval base after a media conference during which the navy said the sub had still not been located, Reuters reported Sunday. Relatives demanded to know what happened that caused the ARA San Juan to become lost, and criticized the government's response to the event. Navy spokesman Enrique Balbi on Thursday said the navy had abandoned hope of rescuing the crew alive, saying the San Juan had air supplies for a week, and 15 days had passed since the navy had lost contact with the crew.

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analysis of capital expenditures in the oil sands suggests that there is limited interest from producers in spending on projects that would bring on new production beyond the 2020 timeframe. The international community's efforts to limit warming to below two degrees Celsius will only further undermine the profitability of investments in Alberta's tar sands, as countries hasten the transition to electric vehicles, ban internal combustion engines and take other measures that would dampen, if not reverse, the demand trend required to support the economic case for new tar sands projects."

A Murray Smith, consultant and former minister of energy for Alberta: "As a matter of rule, when oil prices decline, foreign investment in Canada, and particularly in Alberta, declines. When oil prices go up, the reverse generally occurs; Canadian companies, most recently Canadian Natural Resources and Cenovus, have bought out foreign interests for very reasonable prices. This will add to their already significant footprint in the oil sands, which are assets that reward scale. In turn, to finance the acquisitions, companies will then spin off non-core assets. Smaller Canadian companies will purchase these assets, and because of their small size, will operate these assets more efficiently. Such was the case of a recent acquisition of a Husky Energy asset, a major company, to a much smaller entity, Surge Energy. This renewal process has been repeated numerous times, as commodity prices for oil and natural gas rise and fall. And finally, when prices rise and multinational reserves fall, Alberta once again becomes an attractive destination for oil and gas investments. The oil sands of Alberta remain a smart investment, as the question poses. Exploration costs remain a small factor, labor productivity has improved, construction costs are more in line and operating costs are at their lowest in history. For those companies with long-term sunk capital, the

future is bright, as they add scale and timing of expansion to their portfolio. The major impediment remains access to market via low-cost pipelines. Trans-mountain pipeline expansion and Keystone XL expansion will help diminish the spread between oil sands oil and WTI. Oil shipments by rail will grow as well, in the short run. The oil sands of Alberta remain a very viable investment, particularly as new technologies continue to drive down the carbon emissions footprint and the cost of production."

A Chris Cote, energy market analyst at ESAI Energy: "Indeed, some Canadian oil producers had a strong third quarter. The price of oil rose, new projects came online, and acquisitions helped reduce costs. Next year is likely to be a strong year for Canadian producers as well, with crude production rising by 250,000 barrels per day as companies finish expansion phases and the new Fort Hills mine ramps up output. But things will be different in 2019. Production will continue to grow, at around 120,000 barrels per day, as incremental additions are made to projects already underway, but Fort Hills will remain the last mega-project for the next several years. New mining projects in the Canadian oil sands need the price of WTI crude to be around \$70 per barrel. New SAGD (steam-assisted gravity drainage) projects require about \$60 WTI. Today WTI is at about \$57, where it is likely to remain, barring some major event. At the same time, U.S. demand for the heavy crude of the oil sands is largely satisfied. There is one scenario on the horizon that could change this outlook. A major disruption to Venezuelan production, which is already in steady decline, would send U.S. Gulf Coast refiners looking for some 75,000 barrels per day of extra-heavy crude. Canada, which currently sends some 50,000 barrels per day, is one possible source, while production turn-arounds in Mexico and Ecuador are still a year or two off. This potential new demand,

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and the country lacks basic goods. Maduro's announcement seems to indicate that the sanctions that the United States imposed earlier this year against Venezuelan officials, executives from state oil company PDVSA and the country's debt issuance are hurting the country's ability to work with international banks. People with knowledge of the matter have told Reuters that compliance departments are giving more scrutiny to transactions linked to Venezuela, which has slowed some bond payments and made certain oil exports more complicated.

BUSINESS NEWS

Banco Santander Selling TotalBank to Chile's BCI

Banco Santander on Friday announced that it had agreed to sell its U.S. unit, TotalBank, to Chile-based BCI for \$528 million, Reuters reported. Santander's sale of the unit is part of its moves to shed non-core assets that it inherited when it acquired Spain-based Banco Popular for a nominal sum of one euro on June 7, after authorities in Europe intervened to avert the lender's collapse following a run on the bank. Santander has since carried out a capital increase of 7 billion euros to bolster Popular's balance sheet. BCI, which owns City National Bank of Florida, had been in talks with Banco Popular before Santander acquired it, sources told Reuters. Last month, Santander CEO José Antonio Álvarez said his bank was in the process of selling TotalBank. Santander has said it incorporated the value of TotalBank into its valuation of Popular at the time it acquired the rival. Santander added that the deal is subject to regulatory approvals and other conditions. TotalBank has more than \$3 billion in assets and 18 branches. It employs approximately 300 people. TotalBank has been in operation for more than 40 years, the Miami Herald reported. City National Bank said the deal would benefit its clients. "This is a great fit for both organizations," said CEO Jorge Rossell.

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and the possibility of Keystone XL going forward, could be the boost some smaller projects need to get the green light.”

A **Remi Piet, senior director at Americas Market Intelligence:** “Recent results from Cenovus and Canadian Natural Resources should not hide the structural evolution of energy markets as Canadian energy companies already struggle to see the forest for the trees. Most of them have been fairly conservative in their investment strategy, adopting the short-term argument that production cost reduction would help them maintain some of their margins until a return of high market energy prices. To a large extent, Canadian companies have contented themselves with a risk-averse ‘if it is not broken, don’t fix it’ approach that will hurt them in the near future, as they failed to diversify their operations. Among major energy companies in Alberta, very few have taken the proactive approach of investing in emerging markets and positioning themselves in the capacity to benefit from the

pockets of economic growth that they will direly need when the output of Canadian oil sands projects decreases. Oil prices will continue to stagnate because of geopolitical and global competition logics and calculations. The current restructuring of the Canadian oil sands corporate landscape should be an opportunity to get off a beaten path that promises only diminishing returns and instead identify key international investment opportunities south of the border. Recent discoveries in Mexico, Guyana, Suriname and Colombia represent key opportunities for an industry in need of diversification. Local political and economic risks need to be acknowledged, but can be easily mitigated. It is high time for the Canadian oil sands companies to export their know-how and bank on their technological expertise by developing the sources of their future growth as the return from the Canadian oil sands will continue dwindling.”

The Advisor welcomes comments on its Q&A section. Readers can write 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



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

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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

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Advisor Video

Engagement or Estrangement: What next for U.S.-Cuban relations?

An Inter-American Dialogue Discussion with

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