LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

December 8, 2017

FEATURED Q&A

Is Mexico's Pemex in Good Hands With Its New CEO?

Carlos Alberto Treviño Medina (pictured) was named chief of state oil company Pemex after José Antonio González Anaya was named finance minister. // File Photo: Pemex.

Q **Mexican President Enrique Peña Nieto on Nov. 27 named Carlos Alberto Treviño Medina to be the new chief executive of state oil company Pemex. Treviño, who has been Pemex's corporate director of administration and services, succeeds José Antonio González Anaya, who was named finance minister after 20 months at the helm of Pemex. What strengths and weaknesses does Treviño bring to the job? In the wake of announcing its biggest onshore discovery in 15 years last month, what are Pemex's biggest priorities for next year? How has turnover in the executive suite affected the state oil company's ability to execute and plan strategies as Mexico's energy sector has liberalized?**

A **Lisa Viscidi, director, and Rebecca O'Connor, program associate, of the Energy, Climate Change and Extractive Industries Program at the Inter-American Dialogue:** "Peña Nieto's decision to name González Anaya as finance minister was part of a leadership reshuffle after José Antonio Meade stepped down from that position to run for president next year. The selection is a reminder that the helm of Pemex is a political job—much like a cabinet position—and that Pemex continues to be a politically controlled oil company rather than a purely profit-driven business. Appointed in early 2016 to lead the state oil company, González Anaya was tasked with improving Pemex's imperiled financial situation as well as its international competitiveness. He was largely successful; after a 100 billion peso budget cut last year, Pemex reduced its deficit from 150 billion pesos to less than 90 billion and posted three positive quarters in a row for the first time in

Continued on page 3

TOP NEWS

OIL & GAS

Ecuador to Pay ConocoPhillips $337 Million

The Ecuadorean government has agreed in a settlement to pay oil company ConocoPhillips $337 million in damages to a subsidiary over the government's expropriation of the company's oil investments in 2009 under former President Rafael Correa.

Page 2

RENEWABLES

Brazil to Reach 48% Renewables by 2026: Ministry

Brazil's Ministry of Mines and Energy approved a new energy plan on Tuesday that includes the goal of reaching 48 percent renewables share by 2026.

Page 2

OIL & GAS

Venezuelan Oil-Sector Officials Swept Up in Probe

Venezuela's ambassador to the United Nations and former head of state oil company PDVSA, Rafael Ramírez, was asked by President Maduro to step down amid a corruption probe at PDVSA.

Page 2

Ramírez // File Photo: Venezuelan Government.

OIL & GAS SECTOR NEWS

Venezuelan Oil-Sector Officials Swept Up in Probe

Venezuela's ambassador to the United Nations and former head of state oil company PDVSA, Rafael Ramírez, on Tuesday resigned from his post on the orders of President Nicolás Maduro, in a move that opposition leaders say is part of Maduro's plan to consolidate power ahead of his bid for re-election next year, The Wall Street Journal reported. On Wednesday, Ramírez said it would be one of the Venezuelan government's "worst political moves" if it targeted him in its anti-corruption purge, Reuters reported. Ramírez's resignation came amid what Maduro has called an anti-corruption probe of current and former PDVSA officials. On Nov. 30, Venezuelan agents burst into the homes of Eulogio del Pino and Nelson Martínez, who earlier in the week were dismissed from their jobs as the country's oil minister and president of PDVSA, respectively. More than 65 people so far have been arrested, The Wall Street Journal reported. Martínez, who was oil minister before leading PDVSA, was charged with seeking debt refinancing contracts without government approval, according to Attorney General Tarek William Saab, The New York Times reported. Del Pino was slapped with charges including falsifying production figures and committing sabotage that cost the company millions of dollars in lost revenue, Saab said. The attorney general accused the two men of operating a "cartel" that "bit by bit was delivering blows to the oil industry and causing national damage." Maduro's aides have not publicly released evidence against the charged officials. In a video that was apparently recorded before his arrest and posted on Twitter, Del Pino said he was the victim of an unjustified attack, The New York Times reported. Corruption has long been a fixture at PDVSA, analysts say, but what has changed is that Maduro is seeking to remain in power despite chronic shortages of food and medicine, a crumbling economy and looming debt defaults that could be catastrophic.

Chevron to Study Gulf of Mexico Oil Block

U.S. oil company Chevron plans to focus on studying the geology of Block 3 in the deepwater Gulf of Mexico, to which the company won the rights in an auction late last year as part of a consortium with Mexican state oil company Pemex and Japan's Inpex, rather than drilling wells during the first four years of the contract, Chevron's top executive for exploration and production in Mexico, Evelyn Vilchez, said Thursday, Reuters reported. "Block 3 is very complicated, and we want to use these first few years to better understand the geology," Vilchez said. The block is located on the U.S.-Mexico maritime border. It will likely take between 10 and 16 years for commercial production to begin at the block, and the time frame will depend on the successful exploration efforts of the consortium, along with other factors, Vilchez said. Chevron has also previously announced that it plans to enter Mexico's retail fuel market, which was just recently opened to non-state companies. Chevron plans to open 350 gas stations in Mexico in the next three years. It currently owns six gas stations in three northwestern Mexican states.

> **"We want to use these first few years to better understand the geology [of Block 3]."**
>
> — Evelyn Vilchez

Ecuador to Pay ConocoPhillips $337 Mn in Settlement

The Ecuadorean government has agreed in a settlement to pay Houston-based oil exploration and production company ConocoPhillips

NEWS BRIEFS

Venezuela's Maduro Announces New Oil-Backed Digital Currency

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

Brazil Plans to Reach 48% Renewables by 2026

Brazil's Ministry of Mines and Energy approved a new energy plan on Tuesday that includes the goal of reaching 48 percent renewables share by 2026, Renewables Now reported. The country's National Interconnected System is expected to have 212.5 gigawatts of installed capacity by that time, and more than 50 percent of the energy will come from non-hydro sources. Brazil's energy plan will require an estimated $433.4 billion in investment.

Exxon Sends First Fuel Cargoes to Mexico

Oil company ExxonMobil sent its first cargoes of fuel, totaling 120,000 barrels of diesel and gasoline, to Mexico on Wednesday from its refinery in Beaumont, Tex., in the company's first supply to the newly opened Mexican fuel market, Bloomberg News reported. Last week, Mexico finished liberalizing prices for gasoline and diesel in the country, after years of preparation. The price of fuel previously had been heavily subsidized. The country's primary fuel vendor, Pemex, suffered from shortages earlier this year caused by protests over the gasoline price hike that the government enacted.

$337 million in damages to its subsidiary, Burlington Resources, over the government's expropriation of the company's oil investments in Blocks 7 and 21 in 2009 under the government of then-President Rafael Correa, ConocoPhillips announced Monday. The blocks had produced some 22,000 barrels of oil per day at the time of expropriation. The World


Correa // File Photo: Ecuadorean Government.

Bank's International Centre for Settlement of Investment Disputes, or ICSID, in 2012 ruled that Ecuador had violated the U.S.-Ecuador bilateral investment treaty, and issued a $380 million award to ConocoPhillips last February. The Ecuadorean government will be awarded $42 million on its environmental and infrastructure counterclaims, and Burlington is entitled to an additional $24 million through a third-party contribution, Reuters reported. In a statement, the Ecuadorean attorney general's office said, "The agreement between Ecuador and Burlington allows us to resolve this controversy and to reaffirm the Ecuadorean state's commitment to fulfilling its international obligations."

Unit of China's Sinopec Suing PDVSA Over Unpaid Debts

A U.S. subsidiary of China's biggest state-owned oil company, Sinopec, is suing Venezuelan state oil company PDVSA in a U.S. court over unpaid debts, the Financial Times reported Wednesday. The Sinopec unit is suing PDVSA for $23.7 million plus punitive damages over a contract inked in May 2012 for Sinopec to provide steel rebar to Venezuela's state oil company for $43.5 million, half of which the Chinese company says remains unpaid, accord-

FEATURED Q&A / **Continued from page 1**

10 years. Pemex's new CEO—the company's former CFO and chief administration officer Carlos Treviño—will need to continue carrying out González Anaya's five-year business plan. But with the presidential election next July and a new administration taking office in December 2018, Treviño will not have more than a year in the position. In this short time, he should prioritize securing additional 'farm-out' agreements, which give Pemex access to additional capital from private companies for upstream investments. Before his departure, González Anaya signaled he expected Pemex to form a number of these joint venture partnerships in the coming year, including one to develop the valuable Maximino-Nobilis deepwater area."

A **George Baker, publisher of Mexico Energy Intelligence in Houston:** "Since 1976, on average, there have been 2.14 directors general of Pemex during a given presidential term. Only once has a director completed the full six years of a presidential cycle, and only once before had there been three directors in a single term. Of the 15 who have served, only two (Jorge Díaz Serrano and Luis Ramírez Corzo) have been petroleum engineers. What's wrong with this picture? First, Pemex careerists see any given appointee as a short-timer. Second, they will understand his—all have been men—real job as one of public relations, not of corporate leadership. The director is the alter ego of the president, the one who testifies to Congress, briefs the press and speaks at academic and industry events, using talking points provided by the appropriate cabinet ministry or Pemex operating division. For the rank and file, Pemex Corporativo has the nickname Pemex Decorativo. 'If Pemex Corporate were to disappear overnight, the operating units wouldn't notice its absence for a week,' one careerist told me. From his previous service, the incoming director will have the advantage of knowing the ropes of Pemex and its ecosystem. He will also recognize his limited opportunity to make any lasting change. What to do? Knowing that his is a 12-month gig, he could risk going off-script by calling for professional executive recruitment and retention. He could sponsor a research project and academic conference (at Colmex, for example) that would show the benefits to Pemex and its partners from having professional leadership. He would leave behind the case study for the institutional change that will eventually come. We may hope that the new director will have the courage to look beyond questions of oil production in the next 12 months (over which he has no control) to the broader topic of the future of institutional leadership in Pemex. The current, presidential system is broken and serves Pemex and its partners poorly."

A **R. Kirk Sherr, president of Clearview Strategy Group:** "Carlos Treviño Medina inherits a company with an improved financial outlook from outgoing Pemex president González Anaya. Naming Treviño is essentially more of the same, though. Like González Anaya, he's an experienced financial technocrat with an even better grasp of internal Pemex financial challenges from earlier Pemex jobs, including as CFO. He also benefits from a much higher 2017 price for Mexican crude. But he will face the same challenges as his predecessors, including unsustainable Pemex pension costs that harm the company's 2018 budget, decreasing production in many fields (though recent discoveries are a bright spot), increasing theft of gasoline and crude from Pemex pipelines, and intractable union problems. On union issues, recall that Carlos Romero Deschamps, the principal Pemex union boss, has led the organization since 1996, outlasting seven Pemex presidents, and is also a PRI senator. Pemex union workers retire on average pensions that are often 10 times

Continued on page 6

ing to court documents seen by the Financial Times. Sinopec filed the complaint on Nov. 27 in U.S. district court in Houston. Chinese investments and loans in Venezuela totaled $62 billion between 2007 and 2016, according to the Inter-American Dialogue's Latin America Finance Database, but Venezuela has struggled to pay its debts, and the language of Sinopec's November filing reveals that relations have soured between the two countries. Sinopec alleges PDVSA's conduct "constituted intentional misrepresentations, deceit, and concealment of material facts" involving "willful deception." Sinopec's lawyers declined to comment on the matter, and the Financial Times could not reach PDVSA for a comment. Both PDVSA and the Venezuelan government have been declared in default by ratings agencies since last month, after the two entities began to miss payments on international bonds.

The language of the suit may indicate that Venezuela-China relations have soured.

Petrobras Received $198 Mn in Returns Through Car Wash Corruption Probe

Brazilian state oil company Petrobras has received some 654 million reais, or $198 million, in returns through cooperation agreements with individuals and legal entities through the Operation Car Wash corruption probe, the company said in a statement Thursday. With the return, the company now has received a total of 1.47 billion in returns through the investigation. The company has been recognized as a victim of the corruption carried out at the oil company. Operation Car Wash is an ongoing investigation into corruption by Petrobras officials who allegedly accepted bribes in return for awarding lucrative contracts to Brazilian construction conglomerate Odebrecht.

POLITICAL NEWS

OAS May Call for New Election in Honduras

The Organization of American States said Wednesday that it may call for a new presidential election in Honduras if "irregularities" damage the credibility of the Nov. 26 vote, Reuters reported. In a statement released by OAS Secretary General Luis Almagro, the organization said the result of the election was not certain, and that measures such as a partial recount are needed. "It is clear that it is not possible, without an exhaustive and meticulous process of verification that determines the existence or not of an electoral fraud ... to restore the confidence of the population," the OAS said. The final vote tally, released a week after the election following a count marked by delays, shows incumbent President Juan Orlando Hernández with a lead of 1.6 percentage points over his

ADVISOR Q&A

Can Meade Hold On to the Presidency for the Ruling PRI?

Q Mexican President Enrique Peña Nieto on Nov. 27 backed his finance secretary, José Antonio Meade, to be the ruling Institutional Revolutionary Party's candidate in the presidential election to be held next July. Why did Peña Nieto choose Meade, and will Meade's close affiliation with the relatively unpopular lame-duck president hinder his candidacy? Does Meade have the support of the PRI at large? What will it take for Meade, often described as a U.S.-educated technocrat, to garner enough popular support to become Mexico's next president?

A Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City: "President Enrique Peña Nieto made a politically sound selection in choosing José Antonio Meade as the PRI candidate for next year's presidential election. Meade is the ideal candidate to provide continuity to the Peña Nieto administration's structural reforms. The reforms have to do with long- and medium-term plans for the country, and this is what Mexicans are betting on when they vote for him. This potential will help to assure Mexico's competitiveness as it works to strengthen its institutions and rule of law. For example, if the energy reform is halted, according to data published by the Mexican Institute of Competitiveness, it would cost the country $10 billion, which would have to come from the public budget to compensate for the private investment that has been made so far in Mexico's energy sector. But those resources are also needed to assure the continuation of health and social security programs. In addition to the reforms already enacted, the country is facing new challenges. For example, with regard to social security, universal coverage is needed. Finding the mechanisms to achieve that will require the vision and expertise of an experienced technocrat like Meade. The difference between the PRI and other political parties at this moment in time is that the PRI is unified in support of its candidate. Meade has many challenges ahead and much work to do to court voters and earn the popularity required to win the election, but, fortunately, the race has just begun, and I believe that Meade is entering it on the right foot."

EDITOR'S NOTE: More commentary on Mexico's upcoming presidential election appeared in the Q&A in Wednesday's issue of the daily Latin America Advisor.

NEWS BRIEFS

Trump Administration Reportedly Eyes Goldberg for Envoy Role in Havana

U.S. President Donald Trump's administration is planning to name former U.S. Ambassador to the Philippines and Bolivia Philip Goldberg as the chargé d'affaires at the country's embassy in Cuba, according to a U.S. official with knowledge of the matter, the Associated Press reported Tuesday. The State Department declined to comment on the matter. Goldberg was once expelled from Bolivia after being accused of stirring unrest. The United States has not approved an ambassador to Cuba since the countries re-established diplomatic relations in 2015.

Mexican Education Minister Quits, Expected to Head PRI Campaign

Mexican Education Minister Aurelio Nuño resigned from his post on Wednesday and is expected to be the campaign manager for the ruling Institutional Revolutionary Party's presidential candidate in next year's election, the Financial Times reported. Nuño will be replaced by Otto Granados Roldán, who previously was the junior minister for planning at the ministry of education. Last week, former Finance Minister José Antonio Meade announced he would seek to be the PRI's candidate for president.

All Options on Table Ahead of Policy Decision: New Banxico Chief

All options are on the table for Mexico's central bank ahead of its policy decision next week, the bank's new chief, Alejandro Díaz de León told The Wall Street Journal Monday. The bank has left interest rates unchanged since June following a prolonged series of hikes that put its benchmark rate at 7 percent, its highest level since 2009. Mexico's rate of inflation has remained above expectations.

challenger, Salvador Nasralla. However, the electoral tribunal stopped short of declaring Hernández the winner, saying it wanted to allow time for legal challenges. Hernández late Tuesday called on the Supreme Electoral Tribunal to re-examine all of the votes that were cast, saying, "the people deserve respect," the Associated Press reported. The tribunal's head, David Matamoros, said Wednesday that the body would review tally sheets from as many polling places as the opposition requested. That statement, however, did not seem to imply that the vote would be recounted one by one. Early results showed Nasralla with a five-point lead, but that lead disappeared as the vote counting dragged on last week, sending protesters into the streets in violent demonstrations. The third-place finisher, Luis Zelaya of the Liberal Party, said he was sure of the vote's actual outcome. "The documents used in the process that are in my party's possession give Nasralla as the sure winner," Zelaya told reporters Wednesday, the AP reported. "I am not with either Nasralla or Hernández, but it was Salvador Nasralla who won." The government has imposed a nighttime curfew amid deadly demonstrations after the vote. However, the curfew was lifted in eight departments after the areas were deemed not to pose a risk to public order, Reuters reported.

> **"The people deserve respect."**
> **— Juan Orlando Hernández**

More Than Half of Ballots Spoiled in Bolivia Judicial Vote

Bolivians spoiled more than half of the ballots cast in the country's judicial elections on Sunday, which the opposition says is a sign that President Evo Morales is losing support, Reuters reported Monday. Opposition leaders encouraged voters to nullify ballots by marking more than one candidate, ripping the ballot or doodling on it, in protest of the Constitutional Court's ruling last week that Morales could run for a fourth straight term as president in 2019. Morales had previously accepted the results of a referendum in which 51 percent of Bolivians voted against his proposal to end term limits. The 26 judges elected on Sunday will take office in January. Morales on Monday said the spoiling of the ballots was not a protest against him or his running for re-election, but rather an attempt by the opposition to block his effort to have the judiciary democratically elected, instead of appointed. "The unpatriotic right wing wanted the election of an organic judiciary to fail, but the people have elected their authorities; judges who answer to the people, not to politicians," Morales said.

ECONOMIC NEWS

Mexican Senate OKs Bill to Regulate Fintech Firmse

Mexico's Senate on Tuesday approved legislation to regulate its financial technology sector, which has seen fast growth, Reuters reported. The bill includes regulations for crowdfunding, cryptocurrency firms and other areas of fintech. The measure now goes to the lower chamber of Congress, which is expected to approve it by Dec. 15, three sources familiar with the matter told the wire service. Supporters say the legislation is aimed at promoting financial stability and also at preventing money laundering and the financing of extremists. If the measure becomes law, its details would be worked out in so-called secondary legislation. More than half of Mexico's 120 million citizens lack bank accounts, and fintech firms have seen big potential in the country. The legislation seeks to establish clear rules and lower users' costs, as well as propose measures that regulate firms that use digital currencies such as bitcoin. Mexico's central bank would be in charge of overseeing the measures. Felipe Vallejo, the director of public and regulatory policy at Bitso, a cryptocurrency exchange platform, told Reuters the legislation helps bring Mexico's fintech sector regulation in line with those of other countries that have passed similar regulations.

FEATURED Q&A / Continued from page 3

the typical Mexican yearly salary. Other challenges include assuring natural gas supply to meet rapidly growing demand, finding solutions to the tremendous import levels of refined products and dealing with the Odebrecht scandal fallout in Mexico. In 2017, Pemex has struggled mightily to achieve profitability, with partial success. Next year, however, is an election year, and Treviño and Pemex will be buffeted in the first half of the year by Mexican electoral politics and pulled in new directions at the end of the year by the new Mexican president. Treviño will need every ounce of his accumulated Pemex experience."

A **Luis Miguel Labardini, partner at Marcos y Asociados Infraestructura y Energía:** "The arrival of Carlos Alberto Treviño to the executive office of Pemex is one of the very few cases in the history of the company where an insider takes the helm, and this is good news for Pemex, which has been struggling financially for at least the last three years. The fall in oil prices triggered a cash flow crisis at Pemex that had been in the making for some time, and José Antonio González Anaya, Treviño's predecessor, successfully confronted and resolved the crisis. González Anaya last year outlined a business plan that is still in the process of execution, and intends to cope with a severe operational crisis that has brought crude oil production from 2.2 million barrels per day in 2016 to less than 1.8 million in 2017, together with significant reductions in the production of natural gas and refined products. As an insider, Treviño does not have to go through a learning curve and can face this operational crisis from day one. The challenge is to do more with less, due to significant budgetary restrictions imposed on Pemex as part of the Mexican government's overall effort to reduce public expenses. With an ongoing price per barrel in Mexico above $50, many projects that have been put on hold are economical again, and the challenge for Treviño will be to accelerate an efficient use of scarce resources and devote them to the most profitable projects for the company."

A **Carlos Petersen, Mexico analyst at Eurasia Group:** "The Mexican government's main objective for the energy sector is to consolidate the energy reform and to open the sector to private investment before President Enrique Peña Nieto's term is over. Given that it is unknown who will govern Mexico after the 2018 presidential election, Peña Nieto's main legacy could be at risk. Carlos Treviño's appointment perfectly reflects on this objective and concern. After Pemex's credit rating was downgraded in March 2016, José Antonio González Anaya was named the new CEO. Treviño, a longtime collaborator of González Anaya, was immediately appointed as Pemex's corporate director, leading the efforts on some of the most pressing issues of the firm: dealing with its growing debt, costs and procurement inefficiencies. Basically, the year after they took charge of the firm, Pemex's c-suite was fully focused on financially stabilizing the firm, which they achieved. Next, management turned its eyes to dropping oil production and to the implementation of the energy reform within the firm. This implied moving ahead with Pemex's farm-outs and partnerships. Pemex and the government have agreed on which fields are best suited to try to find partners that can bring expertise and investment to a financially constrained firm. With González Anaya's appointment as new finance minister, Treviño's role is intended to continue with these efforts. Having been part of the design and implementation of these plans, he has a clear strategy and a well-organized team to keep the ship on course. But his lack of time in the position is a drawback. He has only one year to move ahead with these plans, and other pressing issues (such as the crisis in the refining sector) will have to be dealt with by the next administration."

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
Copyright © 2017

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

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

Subscription Inquiries are welcomed at
freetrial@thedialogue.org