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FEATURED Q&A

Will Latin America Benefit From the Rise in LNG Trade?



The LNG boom in the United States could have effects throughout the Americas. Pictured is a U.S. LNG carrier. // File Photo: U.S. Securities and Exchange Commission.

Q The United States is expected to become the second- or third-largest exporter of liquefied natural gas by 2020, according to the U.S. Energy Information Administration. This year, the first-ever LNG exports from the U.S. Gulf Coast shipped to Brazil, and exports to Mexico have quadrupled over the last six years. The expansion of the Panama Canal is also expected to facilitate LNG trade in the region and the export of U.S. LNG cargoes to the Western Hemisphere and beyond. What countries and players stand to gain or lose the most from the rapid rise of trade in LNG? If the United States succeeds in exporting more LNG to Latin America and the Caribbean, how will that affect its political and economic influence in the region? How important will LNG exports become in the overall trade of hydrocarbons in the Americas? Looking ahead, what market dynamics are shaping the future of LNG?

A Jeremy M. Martin, vice president for energy and sustainability at the Institute of the Americas: "Over the last year, ships loaded with U.S. liquefied natural gas (LNG) export cargoes sailed to Brazil and Mexico. It was not the rush toward the Asian market most had expected. That U.S. LNG exports are landing in Brazil and Mexico should hardly be surprising, given each country's energy matrix and requirements for natural gas supplies. Regardless of destination, boosting trade and foreign markets are critical for the ever-growing natural gas production in the United States and providing release valves for supplies that otherwise could place a downward impact on already low domestic prices. Moreover, the economic and employment

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TOP NEWS

OIL & GAS

Brazil May Limit Cuts to Local Content Rules

Brazil may curb its planned cuts to local content requirements for oil exploration and production projects as it moves to extend "Repetro," a preferential customs regime for oil and gas companies to increase investment in the country's oil sector.

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RENEWABLES

European Energy Entering Mexico's Renewables Sector

Danish wind and solar energy developer European Energy announced it would enter the Mexican market and 1,000 MW worth of projects in the coming years.

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OIL & GAS

Venezuela Starts Criminal Probe of Ramírez

Venezuela will launch a criminal investigation of former PDVSA head and Venezuelan Ambassador to the United Nations Rafael Ramírez, said Attorney General Tarek Saab.

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Ramírez // File Photo: Venezuelan Government.

OIL & GAS SECTOR NEWS

Venezuela Launches Criminal Probe of Ramírez

Venezuela will launch a criminal investigation of former PDVSA head and Venezuelan Ambassador to the United Nations Rafael Ramírez, Attorney General Tarek Saab said Tuesday, Reuters reported. The announcement, based on allegations that Ramírez was involved in the “brokering” of oil deals with his cousin, is seen as an escalation in the government’s purge of former and current PDVSA employees that the government has accused of links to corruption. Venezuelan President Nicolás Maduro and Ramírez have long been rivals within the ruling PSUV party, and Maduro’s demand that Ramírez step down from his post as U.N. ambassador was seen by critics as an attempt to consolidate power within the party ahead of his bid for re-election in next year’s vote. After stepping down last week, Ramírez left the United States for an undisclosed location. Saab on Tuesday accused Ramírez of coordinating oil sales with his cousin Diego Salazar, who was arrested this month in Caracas. Saab did not provide any evidence to support the claim. Ramírez has denied involvement in corruption, and recently said targeting him would be one of the government’s “worst political moves.” Last year, the opposition-led Congress said some \$11 billion had gone missing at PDVSA between 2004 and 2014, during which time Ramírez headed the company.

Mexico’s Industrial Production Falls Despite Increase in Oil, Gas Production

Mexican industrial production fell in October despite a recovery in oil and gas output, due to weak performance in the manufacturing and construction sectors, The Wall Street

Journal reported Tuesday. Industrial production fell by a seasonally adjusted 0.1 percent from the previous month and was 1.1 percent lower year-over-year, according to the National Statistics Institute. Production had been expected to increase by 0.7 percent year-over-year, according to economists polled by The Wall Street Journal. Oil and gas production partially bolstered October output, rising 8.5

Oil and gas output rebounded in Mexico after two earthquakes and disruptions in the U.S. from Hurricane Harvey.

percent from the previous month, when state oil company Pemex shut down production due to refinery disruptions caused by major earthquakes that had struck the country, as well as by the disruptions in the United States caused by Hurricane Harvey. The manufacturing sector saw the most year-over-year growth, despite the drop from September, rising 2.7 percent in October from the same month last year. Mining, construction and utilities all saw a decline in production. Growth is expected to rebalance next year, Goldman Sachs said in its recent outlook for Mexico’s economy. “Absent major disruptions to trade, solid growth in the United States should support manufacturing export growth in 2018,” it said. [Editor’s note: See [Q&A](#) about how Pemex will fare under its new chief executive officer in the Dec. 8 issue of the Energy Advisor.]

Brazil May Limit Planned Cuts to Local Content Rules

Brazil may curb its planned cuts to local content requirements for oil exploration and production projects as it moves to extend “Repetro,” a preferential customs regime for oil and gas companies to increase investment in

NEWS BRIEFS

Venezuela Settles Lawsuit With Sinopec Subsidiary

Venezuela has settled a lawsuit with Chinese state-run oil company Sinopec over an unpaid bill, making amends with an important ally as the South American nation scrambles to pay its debts and stay afloat amid a partial default. State-owned oil company PDVSA has agreed to pay \$21.5 million to a U.S. subsidiary of Sinopec for a 45,000-ton shipment of steel rebar that was delivered to Venezuela in 2013. The two countries reached the settlement on Monday.

European Energy to Enter Mexico’s Clean Power Market

Danish wind and solar energy developer European Energy announced Tuesday it would enter the Mexican market, where it is planning to develop 1,000 megawatts worth of projects in the coming years, Renewables News reported. The company will partner with a local company to create wind and solar projects and said that local projects with a combined capacity of 200 MW have already received building permits. Mexico has held three power auctions thus far, adding 7,451 MW of clean energy capacity.

World Bank to Stop Funding Oil and Gas E&P Projects in 2019

World Bank President Jim Yong Kim on Tuesday said the bank would no longer finance exploration and extraction projects for oil and gas after 2019, except in “exceptional circumstances,” for the poorest countries where there is a clear benefit for energy access, and provided the projects fit with the countries’ Paris Agreement commitments. The World Bank has historically supported extraction projects in developing nations in order to help combat corruption and exploitation through good governance.

the country's oil sector, Reuters reported Tuesday. The move to limit cuts would be aimed at appeasing local suppliers that have benefited from local content requirements, which dictate the percentage of a project's workers and inputs must be local in origin, according to Abimaq, a group that represents local suppliers. The measure would also help lay the foundation for an extension of Repetro, or customs breaks for oil companies. The customs regime suspends import duties on equipment used in exploration and production for oil projects, with the goal of attracting more foreign investment. In the past, Brazil has been known for steep local-content requirements, which some argue have inhibited oil firms from investing in the country's oil sector by making oil development in Brazil unprofitable.

Mexico Cancels Oil Tender, Cites Low Investor Interest

Mexico's oil regulator CNH on Dec. 7 canceled a tender for a joint venture with state oil company Pemex in the deepwater Maximino-Nobilis area, citing a lack of interest from investors, Reuters reported. Pemex on Dec. 8 blamed the weak investor interest on recent auctions in Brazil and low oil prices. Pemex said a pre-salt oil auction in Brazil in late October led to

Pemex said a recent pre-salt auction in Brazil dampened investor interest.

dampened interest in Mexico's joint venture. The Maximino-Nobilis area is located in the Gulf of Mexico near the U.S. border. It has been rescheduled for Jan. 31. Last month, CNH said Pemex's stake in the farm-out would be lowered to 40 percent from 49 percent. The regulator has previously said it expects the first commercial barrels of oil to come by 2024, with peak output at the area reaching 174,000

barrels of oil equivalent per day and 265 million cubic feet of natural gas per day by 2026.

ELECTRIC VEHICLE NEWS

Ford Moving Electric Vehicle's Production to Mexico Plant

U.S. automaker Ford on Dec. 6 announced it will shift the production of an all-electric

vehicle to Mexico, while adding 850 U.S. jobs by creating production jobs for an autonomous, or self-driving, car at its Flat Rock plant in Michigan, the Detroit Free Press reported Dec. 7. Ford said it wants to sell the self-driving car beginning in 2021. The move is a change in plans from what it announced last March, when the automaker said it would cancel plans to build a new \$1.6 billion plant in Mexico, instead adding production of both the electric vehicle and the hybrid autonomous vehicle at its Flat Rock plant. That plan had been formulated after U.S. President Donald Trump said he was considering withdrawing the United States from the North American Free Trade Agreement and

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benefits gained from further international commercialization of the United States' natural gas bonanza should not be underes-

“The increased export of U.S. energy will also serve geopolitical ends.”

— Jeremy M. Martin

timated. The increased export of U.S. energy will also serve geopolitical ends, with countries in the Caribbean and Central America at last having an alternative to the cut-rate oil offered by Venezuela through Petrocaribe. The oil alliance had long wrought deep support for the Venezuelan government in the hemisphere and proved a difficult hurdle for U.S. policymakers to counter or overcome, until the opportunity presented by natural gas and LNG emerged. The potential for U.S. LNG exports to displace Venezuelan energy is significant and provides the United States with renewed influence at the same time that Venezuela's domestic morass erodes its credibility with its energy allies. The Panama Canal and alternative routes to move LNG from the Atlantic to the Pacific, such as a proposed project in Mexico, will play a critical role in shaping the future of U.S. LNG

trade. But serious questions remain as to whether those passageways will truly offer time savings and economic upside for the growth in cargo traffic that is expected in the next two to three years. Meanwhile, the trend toward shorter-term and more flexible contracts appears to be the most relevant LNG market dynamic in the coming years. For example, in discussions surrounding LNG imports in Brazil, energy officials underscored that they are seeking contracts of no more than five years. Other off-takers are also demanding flexible terms with regard to price and volume, on top of reduced contract length.”

A John Price, managing director of Americas Market Intelligence: “American gas producers are finally exploiting their pricing advantage, because looser U.S. Environmental Protection Agency regulations permit more exporter terminals. The largest prizes are markets in Asia and Europe, but two-thirds of all U.S. LNG exports in 2016 stayed in the Western Hemisphere. Currently 15 new LNG terminals are under construction on the gulf coast. A wider Panama Canal fits 90 percent of new LNG tankers, versus 6 percent pre-Panama expansion. U.S. LNG can reach Japan in only 20 days, competing directly with Peru and Colombia. Mexico's

Continued on page 6

criticized automakers for building vehicles in Mexico. A person familiar with the matter said the company expects to produce only 4,500 autonomous vehicles annually after 2021, while the newly announced plan expects 25,000 electric vehicles per year to be built in Mexico, the newspaper reported. Ford, which is headquartered in Dearborn, Mich., may be taking a risk by changing course and moving some production to Mexico, as the United States has not yet determined whether it will stay in NAFTA. If the agreement were to dissolve, the United States could impose a 2.5 percent tariff on the parts and fully assembled cars imported from Mexico, according to the director of the Center for Automotive Research's industry, labor and economics group. Ford sees value in producing electric cars in Mexico, however, because it will allow the company to take advantage of lower labor costs and will help improve the "fitness" of that business, said Sherif Marakby, Ford's vice president for autonomous vehicles and electrification, The New York Times reported. Electric vehicles are typically expensive to build and have a thin profit margin.

POLITICAL NEWS

Ecuadorean VP Glas Sentenced to Six Years in Graft Case

Ecuadorean Vice President Jorge Glas was sentenced Wednesday to six years in prison after being convicted of illicit association charges in connection with the multi-country corruption scheme involving Brazilian construction conglomerate Odebrecht, the Associated Press reported. A three-judge panel of the National Court ruled that Glas used his position as a cabinet member and later vice president to allow subordinates to collect bribes from the Brazilian company in exchange for major government contracts for public works and construction projects, Bloomberg News reported. Judge Edgar Flores said Glas and his uncle, Ricardo Rivera, were among five perpetrators who orchestrated a scheme to favor Odebrecht for contracts in exchange for millions of dollars

worth of bribes, the AP reported. In addition to the jail time, the defendants were ordered to pay \$33.5 million, the amount that Odebrecht has acknowledged paying to Ecuadorean officials. A lawyer for Glas said his client plans to appeal. "We will continue in the fight today more than ever to triumph against injustice," Glas' attorney, Eduardo Franco, said in a tweet.

"There was no evidence against him." However, others applauded the court's decision. "This is an historic sentence," said Ecuadorean politician Carlos Montufar. "It should serve as the start of an important opening to strengthen institutions and restore democracy." Glas has been Ecuador's vice president since 2013. Ecuador's Supreme Court ordered him to be

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The Trump Administration, Latin America & Energy: Mexico, Natural Gas & LNG Exports

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December 15, 2017

National Press Club
First Amendment Lounge (13th Floor)
529 14th Street, NW
Washington, D.C.

8:30 - 10:30 a.m.

RSVP [here](#)

NEWS BRIEFS

Brazilian Court to Decide on Lula's Appeal in Corruption Case by Jan. 24

A Brazilian appeals court said Tuesday it would rule on Jan. 24 on an appeal by former President Luiz Inácio Lula da Silva against a corruption conviction that may bar him from running for president in next year's election, Reuters reported. Lula is leading in early polls ahead of the vote. In July, Lula was sentenced to nearly 10 years in prison for accepting 3.7 million reais, or \$1.1 million, in bribes from engineering firm Odebrecht.

Odebrecht Paid \$4.8 Mn to Companies Linked to Peru's President

Odebrecht transferred \$4.8 million to companies linked to Pedro Pablo Kuczynski between 2004 and 2012, before he became Peru's president but while he held senior government positions, according to a document the Brazilian construction company sent to Peru's Congress, Reuters reported Wednesday. Kuczynski denied wrongdoing, but did not dispute that the transfers occurred. Odebrecht is embroiled in a massive graft scandal for admitting to paying bribes to officials in several countries.

Standard & Poor's Lowers Colombia's Credit Rating Amid Fiscal Woes

Standard & Poor's on Monday lowered its long-term foreign currency sovereign rating for Colombia one notch to BBB- from BBB, according to Colombia Reports. The ratings cut was due to ongoing fiscal problems caused by low commodity prices. The ratings agency said it expected the South American country's government debt to increase to 38 percent in 2020 from its current level of 35 percent. S&P had warned of a possible downgrade since February 2016 when it changed its outlook for Colombia to negative.

jailed in October amid the corruption investigation against him. That month, President Lenín Moreno named an interim vice president to fill in for Glas, but Glas technically remains vice president. He can only lose that position



Glas // File Photo: Ecuadorean Government.

through resignation, a three-quarters vote by lawmakers or after three months of abandoning the position, which would occur in January. [See related [Q&A](#) in the July 14 issue of the daily Latin America Advisor.]

U.S. Authorities Probing Graft Claims in Brazil Olympic Bid

U.S. authorities are investigating corruption allegations surrounding the International Olympic Committee's awarding of the 2016 Olympic Games to Brazil, The Wall Street Journal reported Wednesday, citing unnamed sources familiar with the matter. The Federal Bureau of Investigation's New York field office is leading the probe, along with the U.S. Attorney's Office in Brooklyn, the newspaper reported. A federal grand jury in Brooklyn was seeking testimony related to the case as recently as this summer, according to a subpoena that The Wall Street Journal reviewed. The subpoena and interviews with people familiar with the case indicate that the investigation is examining allegations of vote-buying and corruption in the contracting for last year's summer games, including for media and marketing rights. Brazilian and French authorities have also been investigating alleged criminal activity connected to last year's Olympics, held in Rio de Janeiro. The Brazilian investigation has already led to charges, including the arrest of former Brazilian Olympic Committee head Carlos Nuzman,

in connection with what Brazilian prosecutors have called a scheme to bribe members of the International Olympic Committee in order to award the games to Rio. Nuzman's lawyers have repeatedly denied the allegations, and Nuzman was released from jail about two weeks after he was arrested. Mark Adams, a spokesman for the International Olympic Committee, said the organization has been in touch with Brazilian and French authorities concerning their investigations, but added that U.S. authorities have not contacted the organization. "It is hypothetical, but should justice decide that some individuals have misbehaved for the 2016 vote, then the IOC would of course take its responsibility," said Adams.

ECONOMIC NEWS

Brazil Launches New Compliance Program for Farmers

Brazil's Ministry of Agriculture and farm lobby CNA on Tuesday announced a program that will ensure farmers comply with anti-corruption, environmental and labor laws, after a massive corruption scandal in March that revealed a scheme to allow spoiled meat to enter the market damaged the Brazilian meat sector's reputation, Reuters reported. The program will grant a seal of integrity to companies that comply with the regulations set out by the program. Police investigators earlier this year discovered that several meatpackers, including Brazil's two largest, JBS for meat and BRF for poultry, had been bribing inspection officials to allow expired or tainted food to enter the market. The scandal led some importers to halt shipments of Brazilian meat, and the country's agribusiness sector shrank by 2.6 percent, according to the CNA. The Ministry of Agriculture will set up a committee made up of government officials, business leaders and members of civil society, who will grant the seals of compliance after a six-month review. The ministry also said in June that 1,600 additional inspectors had been hired, a 50 percent increase, in order to strengthen monitoring at meatpacking plants.

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energy reform includes a provision to pipe in U.S. gas to fuel more than a dozen new power-generation plants in the industrial north, enhancing Mexican manufacturing competitiveness. Caribbean and Central American power generation is switching to gas to save costs. Net importers of gas, Chile and Brazil, are thankful for U.S. competition. Regional

“Regional gas producers are less sanguine; the biggest short-term loser is Trinidad & Tobago.”

— John Price

gas producers are less sanguine; the biggest short-term loser is Trinidad & Tobago, who has been shut out of the U.S. market and is now losing ground in the Caribbean. Venezuelan, Colombian and Peruvian producers who rely on Northern Hemisphere export markets are all suffering from reduced sales. Pricing arbitrage hurts production and exploration in Bolivia and Argentina. Lower rents provoke austerity conditions in these producer countries. The collapse of oil and gas prices will ultimately drive Venezuela to a default, perhaps marking Maduro's end. Though less reported than the downturn in oil prices, the flood of U.S. LNG will have an even greater mark on the region's economic and political dynamic.”

Alvaro Rios, managing director at Gas Energy Latin America: “Of course, the United States will benefit the most from natural gas exports boosting investment, income and jobs in the country. Definitely the Latin American and Caribbean countries that will benefit from natural gas supplies (if Henry Hub prices do not skyrocket and the current oversupply continues) are those in Central America with a hub in Panama and some Caribbean islands with a hub in the Dominican Republic. Importing countries such as Colombia, Argentina, Mexico, Brazil and Chile will also benefit as LNG is delivered. The result could be a sort of ceiling price for locally produced natural gas or piped gas. Our vision is that LNG is not and will not act as a political influence, but rather as an economic benefit from lower-cost electric power delivered from efficient combined-cycle plants and also from keeping LNG at ceiling prices. LNG trade between the United States and Latin America and the Caribbean has already been important, and will continue to be critical in Mexico, Central America, Colombia and the Caribbean. We believe U.S. LNG may be less important in the Southern Cone, due to emerging exploration and production activities related to natural gas. LNG will be important for seasonality and winter peaking in South American countries. Interestingly, it seems that the Panama Canal may not work for LNG going to the Pacific from the Gulf, due to the size of the newer, larger LNG ships.”

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