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FEATURED Q&A

Does Latin America Need World Bank Funds for Oil & Gas?



World Bank President Jim Yong Kim announced last month that the bank would no longer be financing exploration and extraction projects for hydrocarbons after next year. // File Photo: World Bank.

Q World Bank President Jim Yong Kim on Dec. 12 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. How will the announcement affect Latin America’s oil and gas sectors? How important is multilateral financing for upstream projects today? Should the World Bank eliminate new funding for projects in this sector, and will other multilaterals follow? Who will be the winners and losers as a result?

A Gustavo Coronel, a founding board member of PDVSA: “Global investment in oil and gas upstream projects has been decreasing, from \$900 billion in 2015 to about \$600 billion this year. From 2008 to 2015, this type of financing by the six major multilateral development banks represented a relatively modest average of some \$10 billion per year, with a clear tendency to decrease. Much of this financing has been done in African nations, much less so in Latin America. In light of the Paris Agreement, it is now logical to assume that the decline in this type of financing will accelerate. The decision by the World Bank is a clear indicator of this trend and represents, according to the bank, a commitment to ‘help countries to accelerate the transition to sustainable energy and its support to the Paris Agreement

Continued on page 3

TOP NEWS

OIL & GAS

U.S. Gov’t to Open Waters to Offshore Drilling

The plan will allow new offshore oil and gas drilling in almost all U.S. waters, reversing a ban imposed by U.S. President Donald Trump’s predecessor, Barack Obama.

Page 2

RENEWABLES

Brazil’s Gov’t May Change Course on Hydropower Plans

A Brazilian energy ministry official said the government may need to rethink its hydropower policy, indicating it may be stepping back from its plans to build new mega-dams in the country.

Page 3

OIL & GAS

Petrobras to Pay \$2.95 Bn to Settle U.S. Class-Action Suit

The company, led by Pedro Parente, has tried to reform its image after being caught in the middle of the massive Lava Jato corruption scandal.

Page 2



Parente // File Photo: Brazilian Government.

OIL & GAS SECTOR NEWS

Petrobras to Pay \$2.95 Bn to Settle U.S. Class-Action Suit

Brazilian state-run oil company Petrobras on Wednesday said it will pay \$2.95 billion to settle a U.S. class-action lawsuit over a corruption scandal that has implicated several Brazilian politicians and company executives, The New York Times reported. The case involves the Car Wash corruption probe, in which executives at Petrobras conspired with other companies to overcharge for projects in exchange for receiving bribes. Petrobras will settle the suit, which shareholders filed in the U.S. District Court for the Southern District of New York, in two installments of \$983 million and one installment of \$984 million, pending approval by District Judge Jed Rakoff. The oil company said that its decision to settle the dispute was not an admission of wrongdoing. Petrobras officials say nearly \$3 billion in bribes were paid as part of the scheme, and the company on Monday said it was a victim in the bribery scheme. Petrobras has already recovered some \$449 million in restitution, and has said it will “continue to pursue all available legal remedies from culpable companies and individuals.”

U.S. Gov’t Announces Plan to Open Waters to Offshore Drilling

The administration of U.S. President Donald Trump on Thursday announced a plan to allow new offshore oil and gas drilling in almost all U.S. waters, reversing a ban imposed by Trump’s predecessor, Barack Obama, which protected more than 100 million offshore acres near the Arctic and Eastern Seaboard from oil drilling, The New York Times reported. The plan will allow the oil industry to bid on drilling rights in areas including the eastern Gulf of Mexico, parts of the Pacific Ocean near California and the Atlantic waters near Maine. The

proposal is a blow to Obama’s environmental legacy and follows other measures the Trump administration has taken to reverse restrictions enacted under Obama that were aimed at protecting the environment. The decision follows a separate proposal to repeal offshore drilling safety regulations put in place after the 2010 Deepwater Horizon oil rig disaster off the Gulf



Zinke // File Photo: U.S. Department of the Interior.

Coast. “This is the start at looking at American energy dominance and looking at our offshore dominance,” Interior Secretary Ryan Zinke said in a conference call following Thursday’s announcement, Politico reported. U.S. legislators from states that will see their coastlines open up to drilling activity were quick to criticize the proposal, including politicians who are usually in support of the Trump administration. Florida officials, including Governor Rick Scott and Senator Marco Rubio, criticized the proposal, as did Republican governors including New Jersey’s Chris Christie and Maryland’s Larry Hogan.

Regulator Accuses Eight Former Petrobras Executives

Brazilian securities regulator CVM last Friday formally accused eight former executives at state-run oil company Petrobras of corruption, as the world’s largest graft investigation continues for a third year, Reuters reported. According to a legal filing by CVM, the accusations relate to irregularities in the contracting process for three drill ships and include two former CEOs of the company, Maria das Graças Foster and José Sérgio Gabrielli. The accusations come from an investigation that began

NEWS BRIEFS

Colombia’s EPM Gets \$1 Billion IDB Loan for Hydropower Project

Colombian public utilities company Empresas Públicas de Medellín has secured a \$1 billion loan from the Inter-American Development Bank to finance what it called the “largest hydropower Project in Colombia,” Finance Colombia reported Thursday. The funding will allow the company to build a 2,400-megawatt hydropower plant in Antioquia department. Once it comes online, the facility is expected to generate some 13,900 megawatts of electricity per year.

ExxonMobil Announces Sixth Significant Oil Find in Guyana Waters

Multinational oil company ExxonMobil announced Friday it had made a significant oil discovery offshore of Guyana, the Associated Press reported. The company said its Ranger-1 well hit a major oil reserve in the Stabroek Block, marking the sixth significant oil find in the block since 2015. The area is estimated to contain some 3.2 billion barrels of oil. Last week, Exxon’s country manager for Guyana, Rod Henson, said the company expects to begin oil production by March 2020.

Vestas to Provide 104 MW of Wind Turbines to Chile and Argentina Projects

Danish wind turbine manufacturer Vestas Wind Systems announced last week it had secured contracts to supply 104 megawatts worth of wind turbines for projects in Argentina and Chile, Renewables Now reported Tuesday. The company will deliver 22 MW of turbines for a project in Santa Cruz, Argentina, and will also provide wind turbines for a 50 MW wind park extension in the country. It also will supply nine turbines to a wind farm in Renaico in central Chile.

in March 2016. Former services head Renato Duque, former supply chain head Paulo Roberto Costa, former international business head Nestor Cerveró, former CFO Almir Barbassa, former exploration and production head Guil-



Foster // File Photo: Brazilian Government.

herme Estrella and former gas and energy head Ildo Sauer have also been accused. Several of the accused have already been convicted of separate corruption-related offenses. The investigation is part of the larger Lava Jato corruption probe. Petrobras did not immediately respond to Reuters' request for comment.

RENEWABLES NEWS

Brazil's Gov't May Change Course on Hydropower Plans

The executive secretary of Brazil's Ministry of Mines and Energy, Paulo Pedrosa, said in a surprise statement in an interview with O Globo newspaper published Monday that the government may need to rethink its hydropower policy in the face of environmental and indigenous concerns as well as low public support, indicating the government may be stepping back from its plans to build new mega-dams in the country, The Guardian reported. The government had cleared large sections of forests and poured millions of metric tons of concrete in preparation for the expansion of the hydropower sector, moves that were met with pushback by activists that said the projects would cause environmental damage and would affect indigenous groups. Some activists, however, were skeptical of the motives for Pedrosa's an-

nouncement, which they believe may have been made to mask the decreasing amount of bribes in the construction industry. The Lava Jato corruption probe in 2016 revealed that members of the then-ruling Workers' Party (PT) had been receiving campaign donations from construction conglomerate Odebrecht in exchange for

over-charging on projects such as the Belo Monte hydro plant. Brazil sources nearly 70 percent of its electricity from hydropower, and until recently, the majority of the generating capacity was at plants near the southern border and near São Paulo, Rio de Janeiro and Belo Horizonte. However, in recent years under the

FEATURED Q&A / Continued from page 1

goals to keep global temperature rise to below 2 degrees centigrade.' I welcome this decision and believe that other multilateral banks will soon follow the lead of the World Bank. The impact on poorer Latin American countries will be minimal, as the World Bank will always have the option of attending to 'exceptional circumstances.' The basis for

“ I welcome this decision and believe that other multilateral banks will soon follow the World Bank's lead.”

— Gustavo Coronel

the decision is to increase the incentives for poorer countries to enter into renewable energy projects, which are not only ecologically more desirable, but also require less capital investment to be developed. In fact, it can be argued that replacing oil and gas upstream projects with renewable energy projects is an effective way to promote good governance. The winners will be all of us, the inhabitants of planet Earth.”

A **Isabella Alcañiz, associate professor and Environmental Politics and Policy Program faculty coordinator in the Department of Government and Politics at the University of Maryland:** “With its December decision to divest in energy extraction and production, the World Bank is attempting to resolve its difficult position in the developing

world where on the one hand, it helps fund oil and gas investments, and on the other, it seeks to promote sustainable development and environmental remediation by helping fund green projects through the Global Environment Facility. The decision on oil and gas follows a similar one that the World Bank made in recent years to divest in coal. In general, multilateral participation in energy extraction and production represents a very small fraction of the totality of financing and is mostly tied to capacity-building. However, it often serves as an investment signal, alerting potential backers that the World Bank finds the project economically sound. In this regard, the announcement by World Bank President Kim is bad news to the Latin American oil and gas sectors, but especially to the political leadership, which often negotiates and secures multilateral funding in the first place for these kinds of investments. Given the salience of the climate change crisis and the Paris Agreement, we should expect fossil fuel divestment policies to be adopted increasingly across the multilateral development aid sector.”

A **Francisco Ebeling Barros, Berlin-based independent energy consultant:** “The World Bank's announcement that it no longer would finance exploration and extraction projects for oil and gas after 2019, except in 'exceptional circumstances,' apparently will not have a significant effect on much of Latin America's oil and gas industries. Although the World Bank has in the past financed some projects in Latin America—some of the more recent ones in Peru and in Ecuador—there are currently no active projects in the

Continued on page 6

PT administrations of President Luiz Inácio Lula da Silva and President Dilma Rousseff, there had been a push to build the Belo Monte dam in the Amazon region, despite environmental concerns, legal battles and resistance from indigenous groups. The government under the Brazilian Democratic Movement party's Michel Temer seems to be reversing course in the face of such challenges. While government studies show that Brazil could add 50 gigawatts of hydro energy by 2050, Pedrosa said more than three-quarters of the proposed dams needed to reach that capacity would face challenges over protected land.

POLITICAL NEWS

Peru's Fujimori Leaves Hospital Following Pardon

Former Peruvian President Alberto Fujimori, who had served more than a decade of a 25-year prison sentence for corruption and human rights violations, on Thursday night



Fujimori // File Photo: Peruvian Government.

was released from a hospital as a free man after being granted a controversial pardon on Christmas Eve by current President Pedro Pablo Kuczynski. Fujimori's son, Kenji, a sitting member of Congress, accompanied his father, who emerged from the Clínica Centenario in Lima in a wheelchair and boarded an SUV with tinted windows that took them to a rented house in the upscale La Molina neighborhood, La República reported. "To the joy of many Peruvians, today Alberto Fujimori is free," the former president's doctor and the country's former health minister, Alejandro Aguinaga,

told television station Canal N. He added that Fujimori was still recovering from heart problems. Kuczynski's controversial pardon of Fujimori has been widely seen as payback to Kenji Fujimori, who helped Kuczynski survive an impeachment attempt last month. Fujimori's critics have blasted Kuczynski's decision to pardon the former president. "You may have benefited improperly from an illegal pardon, but that does not take away your responsibility for the death and corruption of the 1990s," human

THE DIALOGUE CONTINUES

Can Mexican Oil Compete with Brazil?

Q Brazil's Senate on Dec. 12 cleared the extension of a preferential customs regime for the oil industry, which suspends import duties on exploration and production equipment and makes the country's oil sector more attractive to outside investment. The move comes as Mexican state oil company Pemex said the week before that it saw tepid interest in a deepwater oil auction due to higher interest in Brazilian oil investments. How is Brazil faring in the global oil and gas sector? Are prospects in Brazil as attractive to foreign investors as Mexico believes? What can Latin American oil exporters do to boost production amid global prices for hydrocarbons that are far below their peak levels from several years ago?

A David Shields, independent energy consultant based in Mexico City and editor of *Energía a Debate*: "State-owned Pemex is probably wrong in its assessment that global interest in Brazil's recent oil auctions contributed to the failure of its own attempt to find a partner for its Nobilis-Maximino deepwater project. The real problem is that Pemex most likely sought too high an entry fee for an unattractive prospect. But Mexico has not lost its allure for international oil companies interested in deepwater. The

proof is that 29 companies from 16 countries have just registered for Mexico's Round 2.4 auction, which offers many contracts that will be almost certainly be awarded successfully early in 2018. Pemex needs to get its act together if it wants to find partners to help finance and operate its oilfield projects. It should seek to farm out a large number of shallow-water and onshore fields, rather than go for deepwater. Apparently it intends to do so, but why so slowly? Production and drilling activity in Mexico and the rest of Latin America have been dampened by low oil prices and maturing fields. The region has been notoriously uncompetitive as compared to U.S. fracking. Mexico, above all, should give priority to the fast development of shale oil and gas if it hopes to regain higher production levels. Northeastern Mexico is believed to be one of the regions with the highest shale potential in the world, as it shares some of the Permian Basin and Eagle Ford geology. However, legal and regulatory certainty will have to be ensured if frackers are to be enticed across the border. The government will likely give priority to this after the upcoming presidential elections."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Dec. 22 issue of the Energy Advisor.

rights activist Gisela Ortiz said in comments directed at Fujimori, Reuters reported. Ortiz's brother, a university student, was killed in a 1992 massacre by a death squad that Fujimori was later convicted of commanding. During his hospitalization last week, Fujimori signaled that he would not return to politics, but his supporters have called on him to advise the Popular Force party, which controls Congress. "There's nothing wrong with receiving advice from him, or counting on his support or coun-

NEWS BRIEFS

Honduras, El Salvador Announce Decline in Homicide Rates

The governments of Honduras and El Salvador said this week that their countries' homicide rates declined in 2017. Honduras' murder rate fell by more than a quarter last year, to 42.8 killings per 100,000 people, the security ministry said, Reuters reported. It attributed the decline to government security initiatives. In El Salvador, National Civil Police Director Howard Cotto said the country's homicide rate declined for a second year, to 60.8 murders per 100,000 residents, the Associated Press reported.

Brazil Ends 2017 With \$67 Billion Trade Surplus

Brazil saw a \$67 billion trade surplus at the end of 2017, in line with market predictions and within the range projected by the government, a signal that the economy is continuing to recover from its worst-ever recession on record, Agence France-Presse reported Tuesday. The trade surplus is 40.5 percent higher than its 2016 level. This year, the economy is projected to grow 2 percent, according to the United Nations' Economic Commission for Latin America and the Caribbean, higher than the projected 0.2 percent growth for last year.

Mexico's Acting Attorney General Defends Efforts Against Money Laundering

Mexico's acting attorney general, Alberto Elías Beltrán, on Thursday defended the government's efforts to crack down on money laundering, a day after a report released by the Financial Action Task Force said Mexico's investigations and prosecutions of such crimes had been inadequate, Reuters reported. Elías said prosecutors were already planning to work more closely with U.S. and Colombian officials to better target money laundering networks for multinational drug cartels.

sel for a future presidential candidate," Maritza García, a Popular Force lawmaker told Reuters last week. "Because of his health he can't lead the party, but he can direct it from his bed or wheelchair," she said.

Opposition Calls for Month of Protests in Honduras

Honduras' opposition on Tuesday called for a month of demonstrations to protest President Juan Orlando Hernández's claim to victory in the country's bitterly contested presidential election, Agence France-Presse reported. Supporters of leftist presidential candidate Salvador Nasralla, who had an early lead in partial results from the Nov. 26 vote, have said the balloting was rigged in Hernández's favor. The incumbent was declared the winner of the close vote three weeks after Hondurans went to the polls, following a partial recount and delays that electoral officials blamed on technical problems. Nasralla has demanded that the election results be annulled. He said Tuesday that his supporters would engage in "protest actions" including a march Saturday in the country's second-largest city, San Pedro Sula. "We have a strategy that we are going to develop in this month of January," Nasralla told supporters. Hernández has called on the country's leaders to accept his re-election.

ECONOMIC NEWS

Top E.U. Diplomat Meets With Castro to Conclude Cuba Visit

Federica Mogherini, the European Union's top diplomat, on Thursday met with President Raúl Castro as she wrapped up a two-day visit to Cuba aimed at strengthening ties with the communist nation, Reuters reported. At a press conference earlier on Thursday, Mogherini said E.U. countries are now Cuba's most important economic partner. Her visit came as U.S. Pres-

ident Donald Trump has reversed some of the thaw with Cuba instituted by his predecessor, Barack Obama. Mogherini said the European Union and Cuba would soon sign \$59 million worth of agreements in areas including renewable energy and sustainable agriculture.

Mexico Inadequately Fighting Money Laundering: Report

Mexico has failed to clamp down on money laundering because of its reactive method of investigating cases and because law enforcement agencies suffer from corruption themselves, a report released by the Financial Action Task Force said in a report released on Wednesday, Reuters reported. The inter-governmental organization said money laundering "is not investigated and prosecuted in a proactive and systematic fashion," which translates to fewer prosecutions and convictions for the crime. The report added that "the level of corruption affecting law enforcement agencies, in particular at the state level, undermines their capacity to investigate and prosecute serious offenses." Following the report's release, Mexico's finance ministry and the attorney general's office said in a joint statement that both bodies would work to improve their methods of investigating money laundering. "The authorities commit to strengthening the areas of opportunity detected, but above all to continue safeguarding the national financial system and supervising vulnerable activities," the ministries said. The government's own estimates show that efforts to fight money laundering have seen little success. In 2016, the government said it had seized \$32.5 million, just 0.1 percent of what it estimates is the \$58.5 billion in illicit funds that are generated by organized crime every year. The Financial Action Task Force commended past efforts to root out money laundering in the banking sector after a U.S. investigation in the mid-2000s showed banks processed billions of dollars in money tied to drug trafficking, according to a draft of the report seen by Reuters. The task force added, however, that tax authorities had not done enough to monitor other businesses.

FEATURED Q&A / Continued from page 3

region. Further, due to ideological reasons (in the case of Venezuela), a lack of significant fossil fuel reserves (for small Central American countries), well executed clean energy transitions (as in Costa Rica) and good governance of natural gas reserves (in Bolivia), there is no indication that this kind of funding by the World Bank is very much needed in the region. One should mention that in Brazil, the Temer administration has decided that it will give massive subsidies for foreign oil and gas companies in the form of tax abatements. Thus, financing won't be a problem in the country's oil and gas industry in the years to come. Considering that the World Bank has not ruled out that it will give assistance to the poorest countries for these kinds of projects, this decision is a timely and well-reasoned move. Although the renewable energy business has been making many successive bold moves, the pace of substitution of oil and gas reserves by sustainable energy carriers will be much slower than some are expecting. Thus, poorer countries—above all in Africa—that are still very dependent on exploiting their oil and gas reserves, will still count, with good reason, on the World Bank's financing to develop, for instance, their local content policies related to the upstream of the oil and gas industry."

A **Jose L. Valera, partner at Mayer Brown:** "Since the Paris Agreement was reached in 2015, the World Bank Group has been stepping up efforts to help countries transition to low-carbon growth and adapt to climate change. At the One Planet Summit convened by French President Emmanuel Macron on Dec. 12, to mark the two-year anniversary of the Paris Agreement's adoption, the World Bank made a number of new announcements in line with its ongoing support to developing countries for the effective implementation of the Paris Agreement's goals. One such announcement was that the World Bank Group will no longer finance upstream oil and gas, after 2019.

The bank has said that current projects in its portfolio would continue as planned, will continue to provide technical assistance to help countries strengthen the transparency, governance, institutional capacity and regulatory environment of their energy sectors—including in oil and gas—and will continue to support and finance midstream and downstream natural gas investments for transport and distribution to consumers and for power generation. My assessment is that, in practical terms, the announcement will not affect Latin America's oil and gas sectors in any significant way. This is because under the legal and contractual frameworks in the region, exploration activities are carried

“The announcement will not affect Latin America's oil and gas sectors in any significant way.”

— Jose L. Valera

out mainly at the sole risk and expense of private-sector companies that must demonstrate the requisite financial wherewithal. To the extent a country itself invests in exploration, it does so through a state-owned oil company (NOC) which has access to capital markets and commercial banks (i.e., Petrobras, YPF, Pemex, ENAP). Others such as PDVSA, Petroecuador and YPFB benefit principally from country-to-country financing. Once the exploration risk has been overcome, the financing of production has plenty of sources (capital markets, commercial banks, private equity and the balance sheet of the companies themselves). It would be rare in Latin America that a commercial discovery of hydrocarbons requires World Bank financing to be developed."

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

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