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FEATURED Q&A

How Will Higher Oil Prices Affect Latin America?



The increase in the price of Brent crude to a three-year high represents the oil sector returning to an equilibrium, Luis Miguel Labardini says on page 6.

Q Prices for Brent crude, the international oil-price benchmark, briefly rose past \$70 per barrel more than once during the second week of January—the first time it had reached that level since December 2014. Over the past three years, oil-producing countries in Latin America have cited low oil prices for a lack of investment in the sector as well as a shortage of cash to pay for upgrades to facilities and exploration and production activity. Are higher oil prices here to stay, and will this lead to significant changes in the region's oil and gas sector this year? Will price increases be enough to offer a lifeline to Venezuela, which is facing a dire economic crisis and relies almost entirely on oil sales for its income? Will other energy sectors in the region suffer at the expense of an increase in oil prices? Have oil-importing countries diversified far enough away from hydrocarbons and toward renewables over the past decade so that their economies are not at risk from spikes in oil prices? How might alternative energy sources, such as wind and solar, be affected by the increase in oil prices?

A Paulo Valois Pires, partner at Schmidt Valois in Brazil: "The recent and sharp increase in oil prices has certainly contributed to the attractiveness of exploration and production offshore projects in Brazil and other offshore provinces in Latin America. We have been seeing companies with more enthusiasm for acquiring development and producing assets in the region. This new oil price range helps oil-producing countries in the region and will generate extra revenues for countries heavily dependent on oil exports, such as

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TOP NEWS

OIL & GAS

Venezuela to Begin Selling 'Petro' Digital Currency

Venezuela's government will begin selling its new "petro" digital currency on Feb. 20, President Nicolás Maduro announced.

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ELECTRIC VEHICLES

Costa Rica Adopts Law to Boost Electric Vehicles

Costa Rica on Jan. 25 implemented a new electric transport incentive law that aims to eliminate hydrocarbon-powered vehicles from the country in the long term.

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OIL & GAS

Mexico Secures \$93 Bn in Oil Investment

The auction's success was a big win for President Enrique Peña Nieto, who enacted the energy reform in 2013 with the goal of attracting foreign investment to the country's oil and gas sector. "This is a vote of confidence in Mexico," said Aldo Flores, the hydrocarbons undersecretary.

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Flores // File Photo: Mexican Government.

OIL & GAS SECTOR NEWS

Mexico Secures \$93 Bn in Investment in Oil Auction

Mexico secured \$93 billion in investment during Wednesday's oil auction, 1.5 times the total amount from the nine previous tenders since the government opened its oil sector to outside investment in 2013, the Financial Times reported. Royal Dutch Shell won nine of the 19 oil and gas blocks in the Gulf of Mexico that were awarded during the auction, Reuters reported. The auction's success was a big win for President Enrique Peña Nieto, justifying his decision to enact the energy reform in 2013 with the goal of attracting foreign investment to the country's oil and gas sector. The auction came amid a three-year high in oil prices, but at a four-decade low in oil production at state oil company Pemex, the Financial Times reported. Shell and other oil majors made bets on the country's oil sector, despite fears that Peña Nieto may be succeeded in July's presidential election by a leftist leader who may revise some of the terms of the energy reform. However, analysts agree that it would be nearly impossible to completely roll back the energy reform, and the new government could not make any retroactive changes to previously agreed-upon contracts. Following Wednesday's tender, more than 60 companies are now working on developing Mexico's oil and gas sector. "This is a vote of confidence in Mexico," said Aldo Flores, the hydrocarbons undersecretary.

Pre-Salt Accounts for More Than 50% of Brazil Oil Production

Brazil's pre-salt oil reserves now account for more than half of the country's oil production for the first time, the National Petroleum Agency said Wednesday, the Associated Press reported. The Brazilian agency said the country extracted 1.685 million barrels of oil from its

pre-salt reserves in December, which was 50.7 percent of the country's overall production of 3.33 million barrels that month. In 2016, extraction from Brazil's pre-salt reserves accounted for 40 percent of production, according to the National Petroleum Agency. On Wednesday, President Michel Temer signed concession agreements from the October auctions, where Brazil secured approximately \$1.8 billion. The October auction was the first time that Brazil

Since taking office, Temer has pushed to attract foreign investment to Brazil's oil sector.

auctioned the rights to develop the oil fields to private and foreign companies themselves. Before, state oil company Petrobras had been required to have at least a 30 percent stake in any oil operation. Temer has been pushing to increase privatization and ease requirements that Petrobras take part in all oil-producing activities, in order to attract investment to the country. The reserves are in the Atlantic Ocean, more than one mile below the ocean's surface and under an additional 2.5 miles of soil and salt.

Colombia Seeing Low Supply of Liquid Propane Gas

Colombia's largest trade group for liquid propane gas, Gasnova, said state-run energy company Ecopetrol must invest in increasing liquid propane gas output to meet rising domestic demand, or else the country will need to increase its imports of LPG, and consumers will pay higher prices, Platts reported Wednesday. Gasnova, an association of 11 companies that in total distribute 76 percent of all Colombian LPG, said a shortfall of supply during the second half of last year has forced the companies to import significant amounts of LPG for the first time, adding that imports

NEWS BRIEFS

Pemex to Increase Crude Processing at Refineries

Mexican state-run oil company Pemex is planning to increase its crude processing at its refineries by some 900,000 barrels per day by the second quarter of this year, CEO Carlos Treviño said Tuesday, Reuters reported. Pemex currently refines more than 500,000 barrels per day of crude. Treviño added that Pemex is expecting to finish the start-up of its smallest refinery, Ciudad Madero in Tamaulipas state, by the end of March.

Venezuela to Begin Selling 'Petro' Digital Currency on Feb. 20: Maduro

Venezuela's government will begin selling its new "petro" digital currency on Feb. 20, President Nicolás Maduro announced Tuesday, Bloomberg News reported. "Mining farms" to create the currency are being developed at schools and universities, Maduro added. The digital currency is to be backed by Venezuela's reserves of oil and other commodities. The country has struggled to issue enough cash to keep up with spiraling inflation.

Banks, Investors Eye Sales of Abengoa Sugar Cane Mills

Banks and investors involved in the court reorganization of the Brazilian unit of Spanish multinational energy group Abengoa Bioenergía are hoping to get paid if the company sells two of its sugar cane mills, two sources familiar with the matter said, Reuters reported Monday. The company filed for bankruptcy protection in September to restructure about \$354 million of loans and other liabilities in Brazil. The potential acquisitions of the two mills highlight the positive conditions of Brazil's clean energy sector after the government passed legislation to require an increase in the amount of biofuels in the country's energy mix.

are projected to increase significantly over the next two years as demand increases. The main reason for the shortfall was that Ecopetrol, which produces 89 percent of Colombia's LPG, last year diverted a large amount of the commodity, which is usually sold to residential and industrial consumers, for its own internal uses, said the president of the trade group.

ELECTRIC VEHICLE NEWS

Tesla in Talks With Chile's SQM on Lithium Investments

Electric car manufacturer Tesla is in talks with Chile-based lithium producer SQM about investing in supplies of the material, which is used to make electric batteries, the Financial Times reported Sunday. U.S.-based Tesla could agree to construct a processing plant in Chile to produce lithium, the newspaper reported, citing Eduardo Bitran, the executive vice president of Chilean development agency Corfo. "With an increasing supply of lithium, Chile is key for any company that wants to become global in electro-mobility," Bitran told the newspaper.

Costa Rica Adopts Law to Boost Electric Vehicles

Costa Rica on Jan. 25 implemented a new electric transport incentive law that aims to eliminate hydrocarbon-powered vehicles from the country in the long term, Agence France-Presse reported. The law will eliminate sales, customs and circulation taxes for electric vehicles and allows people driving electric vehicles to use municipal parking facilities for free. "This law will make it possible to transform Costa Rica's vehicle fleet in just a few years, from cars, cargo vehicles, trains and buses, replacing them with 100 percent electric vehicles," said President Guillermo Solís during the law's signing.

CLIMATE CHANGE NEWS

Clinton Foundation Launches Effort to Fight Climate Change Effects in Caribbean

The Clinton Foundation on Thursday announced it is launching a new "action network" that will help with post-disaster recovery efforts in the Caribbean, with the goal of addressing long-term climate change-related issues as the region struggles to recover from Hurricanes Irma and Maria last year, Devex reported. The action network was formed at the invitation of the governments of Puerto Rico, the U.S. Virgin Islands, Antigua and Barbuda, and Dominica. Former U.S. President Bill Clin-

ton met with more than 90 nonprofit, business, philanthropic and government representatives during the network's first planning meeting on Wednesday, one day before the foundation officially announced the network's launch. Clinton announced the first three initial commitments will be with private-sector groups on infrastructure damage in Dominica, solar power systems for health-care facilities in Puerto Rico and Zika testing programs for pregnant women in Puerto Rico and the Caribbean, the Miami Herald reported. During the meeting, he also emphasized the importance of collaboration across sectors in order to help protect the Caribbean from the worst of climate change's effects. "Puerto Rico, the U.S. Virgin Islands, and the Caribbean community are in need, and we must answer that call" Clinton said. Approximately one-third of people in Puerto Rico remain without power following Hurricane Maria in September.

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Venezuela. In the medium and long term, alternative energy sources will not be dramatically affected by the surge in oil prices.

“This new oil price range helps oil-producing countries in the region.”

— Paulo Valois Pires

In fact, most of the wind and solar greenfield projects in the region have secured financial and tax incentives from governments. However, it appears that oil-importing countries will be affected by the recent spikes in oil prices.”

A Gustavo Coronel, a founding board member of PDVSA: "Oil price increases have traditionally triggered a 'thermostat' effect.

This time around, they will represent an incentive for the activation of closed-in oil pro-

duction, particularly in the shale oil regions of the United States, placing more oil in the market. This, in turn, will pressure the price downwards. This 'thermostat' effect would tend to promote the stabilization of prices at the level of between \$60 and \$65 per barrel in the medium term. Such oil price levels would not be enough to give oil investments in Latin America a significant boost—except, perhaps, in the shale oil areas in Argentina. This will not be the case in Venezuela, where the dismal condition of the oil industry is more the result of corruption and managerial ineptitude than of low oil prices. Non-oil producers in the region will have to tighten their belts, although in most of these countries, a certain degree of oil import replacement by other sources of energy has already taken place, and oil price fluctuations are no longer as critical to their economies as in previous decades. Wind and solar in Latin America should receive a modest impulse from higher oil prices, although a strong increase of activity in these areas would require both a bigger and a sustained increase in oil prices,

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POLITICAL NEWS

Tillerson to Begin Six-Day Trip Through Latin America

U.S. Secretary of State Rex Tillerson is scheduled Thursday to start a six-day trip through Latin America, where he is planning to seek support for pushing democratic reforms in Venezuela, the Voice of America reported. The trip will take Tillerson to Mexico, Argentina, Peru and Colombia before he makes a final stop in Jamaica on Feb. 7. The United States is planning to use "all its political, diplomatic and economic tools to address the situation in



Tillerson // File Photo: U.S. Department of State.

Venezuela," a senior State Department official said earlier this week about the trip. The objective of the Trump administration "is to help the Venezuelan people to deal with this economic crisis, but also to restore the democratic order so that they can be in charge of their future again," the official added. Last month, the U.S. Treasury added four current or former senior officials of the Venezuelan military to its list of sanctioned individuals, accusing them of corruption and human rights abuses that have contributed to dire shortages of basic goods, including food and medicine in the Andean nation. The European Union has also slapped sanctions on Venezuela, and Organization of American States Secretary General Luis Almagro has urged democratic reforms in the South American country. In January, Venezuelan President Nicolás Maduro announced that he would seek a second six-year term this year and that the next presidential election would occur before the end of April. Before heading today to Mexico, Tillerson is scheduled to deliv-

ADVISOR Q&A

Does Lula Have a Chance of Winning the Presidency in the October Election?

Q **Former Brazilian President Luiz Inácio Lula da Silva on Jan. 24 lost an appeal when a three-judge panel unanimously upheld a corruption conviction against him and lengthened his original prison sentence from nine-and-a half to 12 years. Lula, who denies wrongdoing, has been the frontrunner ahead of the country's October presidential election, and while he can continue appeals, his most recent setback severely complicates his ability to run. Is Lula's political career over? Is Lula the Workers' Party's only hope of winning the presidency this year, or should the party designate another candidate? How do the latest developments change the dynamics of Brazil's presidential race, and who benefits the most from the rulings against Lula? How much are the judicial decisions in the Lula case being driven by politics rather than strict interpretation of the law?**

A **Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue:** "Lula's political future has been left hanging by few threads after the unanimous affirmation last week of his criminal conviction. The final word on the conviction, and its associated penalties, will almost surely come from Brazil's Supreme Court (STF), which unlike the lower courts, can be expected, fortunately, to take account of the broader political consequences of Lula's conviction and his prospective disqualification from the October presidential election. The STF has little choice under the circumstances—and it is the right course as well. Brazil today is plagued by a deep and prolonged crisis of governance. Public trust in Brazil's democratic institutions and na-

tional leadership remains at its lowest point since civilian rule was restored in 1985. Brazil's regional and international standing has also fallen sharply. That was underscored by U.S. Secretary of State Rex Tillerson when he left Brazil off his upcoming itinerary in Latin America, which includes every other major country in the region. Keeping Lula from competing for the presidency, while most of Brazil's top political leaders (including President Temer) and presidential contenders are also targets of corruption probes, will be viewed by many Brazilians as unjust and discriminatory, and could well add to the alienation of much of the nation's population and further polarize its politics. Some prominent opponents of Lula have argued that, in this period of political turmoil, it would be a mistake to deny voters the right to choose their leadership, and that allowing Lula to run could help restore public confidence in democracy and government. Although Lula's popularity, once the highest of any Brazilian leader ever, has flagged in recent years, he remains the frontrunner in the presidential race by a wide margin. He would not, by any means, be a sure winner, however. The second round of the election, with only two candidates competing, will determine whether Lula can still command an electoral majority. Whether Lula is in the race or out, the election results still defy prediction—and may not do much to resolve Brazil's governance problems."

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

NEWS BRIEFS

Lula Still Leads Polls Despite Losing Appeal on Corruption Conviction

Former Brazilian President Luiz Inácio Lula da Silva continues to be the frontrunner of the Oct. 7 presidential election, despite his recent loss on appealing his corruption conviction, according to a poll published Wednesday by Datafolha, the Associated Press reported. The poll indicated that if the election were to take place now, Lula would win between 34 and 37 percent of the votes in the first round, leading Jair Bolsonaro, who would garner 16-18 percent. The poll also indicated Lula would win the second round if no single candidate won the majority in the first round. The poll had a two percentage point margin of error.

At Least 14 Killed in Brazil Nightclub Shooting

At least 14 people were killed in a shooting early Saturday morning at a nightclub in the northeastern Brazilian city of Fortaleza, the Voice of America reported. Ceará state officials said three cars full of gunmen arrived at the Forro do Gago nightclub and opened fire for 30 minutes. Many fled the club, but at least 14 were killed during the shooting, officials said. At least a half-dozen more were injured. Police say the shooting may have been motivated by a rivalry between drug gangs.

Chile Creates New National Parks From Donated Land

Chilean President Michelle Bachelet on Monday signed decrees to create five new national parks, spanning 10.3 million acres, made up of land largely donated by the Kristine McDivitt Tompkins, the widow of North Face outdoor wear company founder Doug Tompkins, The Guardian reported. Doug Tompkins, who accumulated the land, died in a kayaking accident in Chile in 2015.

er a speech at the University of Texas at Austin about the Trump administration's Latin America priorities. In Mexico, Tillerson is to meet with President Enrique Peña Nieto and other top officials. The relationship between the United States and Mexico has become more tense amid vows by U.S. President Donald Trump to clamp down on illegal immigration and also to build a multi-billion wall along the countries' shared border, which he has repeatedly said he will force Mexico to fund. "What has been a good relationship between the two countries right now is fragile and delicate," Francisco Gil Vargas, a professor of international relations at the College of Mexico, told The Washington Post. "On the government level, they have avoided a crisis. On the citizen level, there is a lot of anger." The United States, Mexico and Canada this week completed a sixth round of talks on renegotiating the North American Free Trade Agreement.

Colombia's Santos Suspends Peace Talks With ELN Rebels

Colombian President Juan Manuel Santos on Monday formally suspended peace negotiations with the ELN after the rebel group claimed responsibility for a bombing over the weekend that killed five police officers and injured more than 40 other police officers, the Miami Herald reported. Negotiating peace deals with rebel groups has occupied much of Santos' presidency, but he said the most recent attack left him no other option but the cut off talks with the group. "My patience and the patience of the Colombian people have limits," he told a crowd in Palmira, 85 miles north of Bogotá. "I've taken the decision of suspending the fifth round of talks ... until we see coherence between the ELN's words and actions." The audience burst into applause at his announcement. The government reached a peace deal with what was Colombia's largest rebel group, the FARC, in 2016, but the negotiations with the ELN have been fraught, characterized by violence and an increased military presence by the rebel group, Reuters reported. Negotiations have been ongoing since February

of last year, and the two sides agreed to a cease-fire in October. The cease-fire expired in January, however, and the ELN renewed its attacks after the deal's expiration. Candidates in the race ahead of Colombia's presidential election in June have called for a de-escalation of violence from the ELN, with left-wing candidates warning of the possible consequences that continued violence might have on the implementation of the peace accord with the FARC, according to Colombia Reports. "We cannot permit violence and terror to return to the streets of Colombia. Let's once and for all turn the page of violence," said leading candidate Sergio Fajardo. Conservative candidates Iván Duque and Germán Vargas called for a strong response from the government.

ECONOMIC NEWS

Argentina to Freeze Gov't Salaries This Year: Macri

Argentine President Mauricio Macri on Monday said government employees will see a salary freeze this year as part of a number of measures aimed at cutting government spending, the Associated Press reported. He also announced the elimination of 1,000 "political positions," as well as the firing of family members who had been appointed by government ministers. The measures are projected to save the government \$75 million. Macri said the government could not be excluded from austerity measures he has implemented since his election in 2015 with the goal of strengthening the economy, BBC News reported. "We want to change the culture of power in Argentina. We all have to concede something for the benefit of the greater whole," he said. The measures appear to focus on the national government and do not address local and state levels. Last year, two bills were introduced in Congress that attempted to address the issue of nepotism in the government. Some analysts say Macri may be using the measures to deflect criticisms of putting his own allies and supporters in government roles.

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as well as clear national energy policies promoting renewable energy.”

A Luis Miguel Labardini, partner at Marcos y Asociados Infraestructura y Energía: “The crude oil market seems to be reaching a new equilibrium that is here to stay. In the oil field services sector, the perception is that, finally, the worst has been left behind, and investment is beginning to recover. Pemex experienced a dramatic fall in its investment levels in the last three years, and the result was a reduction in crude oil production from 2.2 million barrels per day in 2016 to 1.9 million barrels per day in 2017. Today, Pemex is slowly increasing its investment, mainly in shallow water drilling, the source of 70 percent of total production. Mexico is a diversified economy, and the weight of oil in public revenues and exports has been diminishing in recent years. The case of Venezuela is very different, because the economy of Venezuela is highly dependent on oil, and even this increase in the price per barrel will not be enough to solve the dramatic situation the country is facing. Venezuela is beyond repair. Renewables have experienced a dramatic growth in Mexico in the last three years, and they have shown

to be competitive, even in an environment where natural gas prices have remained relatively low. Actually, a significant amount of foreign investment has been channeled to renewables, due to the certainty that long-term offtake contracts provide to these

“The crude oil market seems to be reaching a new equilibrium that is here to stay.”

— Luis Miguel Labardini

types of arrangements. In any circumstance, natural gas will remain the fuel of choice to generate power, in spite of the significant limitations that Mexico is experiencing in importing natural gas from the United States via pipelines. There are certain hurdles being faced by projects currently under construction. Mexico-produced natural gas is still not competitive in this price environment.”

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

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