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FEATURED Q&A

How Much Are Higher Oil Prices Helping the Region?



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. An oil platform of Brazilian state oil company Petrobras is pictured above. // File Photo: Petrobras.

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 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 production, 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

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TODAY'S NEWS

POLITICAL

Veracruz Police Charged With Using Used Death-Squad Tactics

Prosecutors in the Mexican state filed charges alleging that police tortured and killed drug crime suspects, mainly youths.

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ECONOMIC

U.S. Considers New Sanctions on Venezuela

The Trump administration is considering sanctions that would target Venezuela's oil sector. New sanctions could be imposed both before and after Venezuela's April presidential election.

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CAPITOL HILL WATCH

Puerto Rico Governor Seeks Disaster Aid From Congress

Puerto Rico's governor, Ricardo Rosselló, asked the U.S. Congress to intervene after the Treasury Department cut a \$4.7 billion disaster relief loan to the territory by more than half.

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Rosselló // File Photo: Commonwealth of Puerto Rico.

POLITICAL NEWS

Prosecutors Charge Veracruz Police Used Death-Squad Tactics

Police in the Mexican state of Veracruz abducted, killed and disposed of at least 15 people, mainly youths, who were suspected of drug crimes, prosecutors alleged in filing charges against former top police commanders, the Associated Press reported Wednesday. The tactics allegedly used bear the hallmarks of counterinsurgency death squads that operated in Mexico in the 1960s and 1970s. According to the charges, police in unmarked patrol cars allegedly detained youths without recording their arrests and handed them over to interrogation and torture squads working at a police academy. The detainees were later killed, and their bodies were disposed of, according to the charges. Among those charged were a former head of state security, as well as the top leaders of at least two police divisions. The stature of the former officials charged suggest that the tactics amounted to state policy under the administration of then-Governor Javier Duarte, who is jailed and facing charges of corruption, the AP reported. The suspects' disappearances happened in 2013 and 2014.

U.S. Backs Guatemala Anti-Corruption Commission: Haley

The U.S. ambassador to the United Nations, Nikki Haley, on Wednesday told Guatemalan President Jimmy Morales that the administration of Donald Trump supports the U.N.-backed International Commission against Impunity, or CICIG, as well as its commissioner, Iván Velásquez, Reuters reported. Morales tried to



Haley and Morales met Wednesday in Guatemala City. // Photo: Guatemalan Government.

expel Velásquez from the country last fall after prosecutors launched an investigation into alleged campaign finance violations in his 2015 presidential run. "I told him that we supported CICIG and supported the commissioner," Haley told reporters on a visit to Guatemala City. She added that Morales had not asked her for help to remove Velásquez. A comedian and

NEWS BRIEFS

Trump Administration Considers New Sanctions Against Venezuelan Gov't

The administration of U.S. President Donald Trump is considering new sanctions in order to increase pressure on Venezuelan President Nicolás Maduro, Reuters reported Wednesday. The administration may slap sanctions on an oil services company run by Venezuela's military, an unnamed U.S. official told the wire service. It also may restrict insurance coverage for the South American country's oil shipments, the official said.

Exxon Mobil Announces Seventh Oil Discovery Off Guyana's Coast

Texas-based oil producer Exxon Mobil on Wednesday announced its seventh oil discovery off the coast of Guyana. Drilling on the Pacora-1 exploration well, which lies under 2,000 meters of water in the Stabroek block, started on Jan. 29. New York-based Hess and China's CNOOC Nexen Petroleum Guyana share stakes in the Stabroek block with Exxon Mobil, which said the new find will help bring Guyana's production to more than 500,000 barrels per day. [Editor's note: See related [Q&A](#) in the Jan. 12 edition of the Energy Advisor.]

Carrefour Reports Improvement in Latin America Earnings

France-based retailer Carrefour on Wednesday said its earnings results in Latin America, a key market for the company, improved slightly last year. While recurring operating income from the region ended 2017 at 715 million euros (\$879 million), up by 4 million euros, its operating margin fell by 4.4 percent. The company said operating losses in Argentina cut into margins. However, Brazil delivered "a solid operating performance" despite high inflation on food, Carrefour said.

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\$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, as well as clear national energy policies promoting renewable energy."

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.

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television personality, Morales won the presidency in 2015 with 70 percent of the vote on an anti-corruption platform. But when Guatemala's attorney general and CICIG jointly sought last August to investigate him over improper campaign finance allegations, Morales declared Velásquez "persona non grata" two days later, threatening to expel him and sparking an international uproar. A court later reversed Morales' declaration. Earlier this month, former Guatemalan President Álvaro Colom and a former finance minister who is now chairman of Oxfam International, Juan Alberto Fuentes, were among 10 people arrested as part of a CICIG-led graft investigation.

BUSINESS NEWS

Vale Eyes \$150 Million Cost Savings in Nickel Operations

Brazilian iron miner Vale, a top global nickel producer, plans to save more than \$150 million by reducing costs across its nickel operations, Reuters reported Wednesday. In the face of lower prices for the commodity, Vale has said it will halt new investment in nickel operations and has been looking for an investor for its nickel mine in New Caledonia, the French territory in the South Pacific. Vale is aiming for base metals, which are not considered precious, such as copper, tin or zinc, to account for at least 30 percent of its financial results by the end of 2019, executives told analysts. Last year, base metals stood at about 14 percent of earnings. Vale also aims to cut iron ore's share of results to 70 percent from 90 percent in two years. Vale this week reported a 38 percent increase in net profit last year compared with a year earlier, the Financial Times reported. Higher iron ore prices boosted results. Vale reported net profit of \$5.51 billion in 2017 on net operating revenue of \$33.97 billion, which was up 23.6 percent as compared with the year before. The company said net debt had fallen to \$18.14 billion by the end of December, from about \$25 billion a year earlier.

CAPITOL HILL WATCH

A Look at U.S. Congressional Activity on Latin America

Puerto Rico Gov. Asks Congress for Help

Puerto Rico's governor on Tuesday called on the U.S. Congress to intervene after the Treasury Department cut a \$4.7 billion disaster relief loan available to the U.S. territory by more than half, the Associated Press reported. Gov. Ricardo Rosselló said federal officials have reduced the amount to \$2 billion without providing an explanation. Congress had approved the loan in October to help Puerto Rico recover from Hurricane Maria, which killed dozens of people and caused up to an estimated \$94 billion in damage. Treasury told the AP that it is altering the terms and conditions under which the loans will be offered "to protect federal taxpayer investments while ensuring funding is available quickly when needed."

Menendez Condemns Venezuela Election

Senator Robert Menendez (D-N.J.), the ranking member of the Senate Foreign Relations Committee, along with 10 other senators on Tuesday introduced a resolution "condemning repressive and undemocratic actions" taken by the Venezuelan government and describing Venezuela's April 22 vote as a "sham election," McClatchy reported. The resolution states that any upcoming election not meeting established international standards would be considered illegitimate, and condemns the government of Nicolás Maduro for "cruel use of government food rations to influence votes during a period of severe food shortages and widespread hunger." Last month, Menendez and Sen. Marco Rubio (R-Fla.) co-wrote a letter blasting Venezuela's launch of the oil-backed "petro" digital currency and asking the Treasury Department to monitor its progress, as well as offer insight into how the department might work against the new currency's use to flout U.S. sanctions, CoinDesk reported.

House Committee Explores De-Risking

Chaired by Rep. Blaine Luetkemeyer (R-Mo.), the Financial Institutions Subcommittee of the U.S. House of Representatives on Feb. 15 held a hearing to examine de-risking among banks and its effect on access to financial services. The term refers to international banks' practice of terminating correspondent banking relationships in locations deemed to be "high-risk" for compliance violations. The de-risking trend has been particularly threatening to banks operating in the Caribbean basin in recent years. "This problem has existed in some form over the past 20 years but has grown more pronounced following the global 2009 recession," Manuel Orozco, a program director at the Inter-American Dialogue and a witness at the hearing, said in written testimony. De-risking has had unintended consequences for international charities, independent ATM operators, and non-bank financial services providers. Increasingly, de-risking is impeding anti-money laundering efforts by reducing the visibility of regulators and law enforcement into the financial activities of criminals, witnesses said. By excluding whole categories of customers, banks can push these customers—including criminals—to unregulated, informal financial networks. [Editor's note: See related [Q&A](#) in the Dec. 13 edition of the Dialogue's Financial Services Advisor.]

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

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

– Luis Miguel Labardini

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 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.”

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