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FEATURED Q&A

Does the Caribbean Have Big Potential for Oil & Gas?



Caribbean nations are making a push to develop energy production. The Dominican Republic's energy and mining minister, Isa Conde, last month announced that the country is opening blocks for oil and natural gas exploration. // File Photo: Gov't of the Dominican Republic.

Q With the price of global crude rebounding from recent lows, officials in the Dominican Republic say they expect to draw interest from international oil companies as the country opens for the first time to natural gas and oil exploration, Bloomberg News reported last month. Other Caribbean countries such as Suriname, the Bahamas and Jamaica have also recently made attempts to discover significant oil and gas deposits for the first time. However, previous efforts to find oil off the coasts of some Caribbean countries, such as Cuba, have turned up dry. Are the Dominican Republic and other Caribbean countries, especially ones that are new to the oil and gas game, likely to succeed in attracting international investment? Does the Caribbean hold significantly more potential for new hydrocarbon discoveries than have already been made? What factors are most shaping oil and gas investment decisions in the Caribbean?

A Stephen Johnson, former U.S. deputy assistant secretary of defense for Western Hemisphere affairs (2007-2009): "Necessity is often the mother of invention. Today, that may well be the case with the Dominican Republic and many of the other beneficiaries of Venezuela's Petrocaribe. Venezuela can no longer supply its 17-member alliance with oil at concessionary prices as it once did. Its state-owned Petróleos de Venezuela (PDVSA) is nearly broke. Having redirected profits toward funding social spending instead of maintenance, it has had to idle rigs. Production is reportedly half what it was in 2005 when Petrocaribe was launched. A good chunk of it now goes to Russia

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TODAY'S NEWS

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Judge Orders Brazil's Lula to Surrender to Authorities

Brazilian Judge Sérgio Moro ordered former president Luiz Inácio Lula da Silva to turn himself in to police and begin serving his 12-year sentence on corruption charges.

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BUSINESS

LATAM Airlines Cancels Chile Flights Ahead of Strike

The airline said it is canceling flights in Chile between April 10 and 13 as it seeks to reach an agreement with flight attendants who are expected to strike.

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POLITICAL

Peña Nieto Rebukes Trump in Televised Address

Mexican President Enrique Peña Nieto said his country is willing to cooperate with the United States, "but only on the basis of mutual respect."

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Peña Nieto // Photo: Mexican Government.

POLITICAL NEWS

Judge Orders Brazil's Lula to Surrender to Police This Afternoon

Sérgio Moro, the Brazilian judge who has led the massive "Car Wash" corruption investigation, on Thursday ordered former President Luiz Inácio Lula da Silva to turn himself in to authorities by 5 p.m. local time today to begin serving his 12-year prison sentence following his conviction on graft charges and loss on appeal, *O Estado de S.Paulo* reported. Moro's order came less than a day after Brazil's Supreme Court narrowly rejected Lula's bid to remain free while he continues to appeal his conviction. The decision all but ended Lula's effort to return to the country's presidency in this October's election. Polls have long had him as the front-runner. In his order Thursday, Moro said he was giving Lula the opportunity to turn himself in voluntarily. "I concede to him, out of respect for the dignity of the position that he occupied, the opportunity to present himself voluntarily to the federal police," Moro said in the order, the *Financial Times* reported. Moro ordered Lula to surrender in Curitiba, where authorities have prepared a special room to hold him in the southern city's federal police station. "The ex-president will stay separated from other prisoners, without any risk to his

moral or physical integrity," the court order read. The speed with which Moro issued the warrant came as a surprise to some legal observers who have said technicalities from Lula's appeal would not be resolved until next week, *The Washington Post* reported. The technicalities "were simply a pathology that should be eliminated from the judicial world," Moro said. Late last night, thousands gathered outside a metallurgical union in the São Paulo suburb of São Bernardo do Campo, where Lula was a union organizer. While Lula spent the evening there, he did not speak publicly. It was unclear whether he would turn himself in today or force police to come and arrest him.

Mexico's Peña Nieto Blasts Trump in National Address

In a televised address Thursday afternoon, Mexican President Enrique Peña Nieto on Thursday rebuked U.S. President Donald Trump, saying Mexico is willing to cooperate with the United States and negotiate, "but only on the basis of mutual respect," *El Financiero* reported. Peña Nieto's address followed several days of heated statements from Trump, who has criticized Mexico for not doing enough to stop a caravan of Central American migrants headed for the U.S. border. In addition to sending the National Guard to the U.S.-Mexican

NEWS BRIEFS

Panamanian Government Pulls Ambassador Out of Venezuela

Panama on Thursday recalled its ambassador to Venezuela, a move seen as a response to Venezuelan President Nicolás Maduro's move to ban 22 Panamanian individuals and 46 companies from business activity in Venezuela, *Panamanian newspaper La Prensa* reported. That action by Maduro came just a day after Panama sanctioned him and more than 50 other top Venezuelan government officials.

Colombia Moves Back Deadline for Oil Auction Bids

Colombia's National Hydrocarbons Agency, or ANH, late on Wednesday moved back a deadline for bids in an upcoming oil auction, *Reuters* reported. The action marked the fifth time the agency has postponed the deadline for Sinu-San Jacinto auction, which offers 15 onshore gas and crude oil blocks. The deadline was pushed from April 5 to May 3. The delay came at the request of interested companies, the wire service reported.

Chinese Ride-Hailing Company Didi Launches in Mexico

China-based ride-hailing company Didi Chuxing has launched in Mexico, entering head-to-head competition with U.S.-based Uber, *Reuters* reported today. Didi said that in an effort to recruit drivers, it will not take a cut of fares until June 17. After that date, the company said it will take a 20 percent commission, which is lower than the amount that Uber takes in most of the markets where it operates. Didi's website said the company will begin operations "very soon," though it did not specify a date. The company also said it would offer bonuses to drivers who recruit other drivers.

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and China to pay off government debts. Even close ally Cuba now buys oil from Algeria and Russia to offset the decline in Venezuelan shipments. Back in the day, the Dominican Republic benefited from cut-rate Venezuelan oil. In 2010, it even sold PDVSA a 49 percent stake in its Refidomsa refinery. By one account, PDVSA was supposed to help expand Refidomsa's capacity from 30,000 to some 150,000 barrels per day to help it meet local demand, but PDVSA apparently never came through. Two years ago, Venezuela reportedly stopped shipping petroleum to the Dominican Republic altogether, hence the

Dominican Republic's interest in exploring potential domestic reserves. Geologists say that Dominican topography has faults and other structures that might harbor oil. The discovery of huge new reserves off the coast of Guyana in 2015 boosts hopes that exploitable hydrocarbon reserves might be found elsewhere in the region. Perhaps in nearby Suriname, or in Jamaica. Whether or not that comes true, Caribbean countries will have to diversify energy partners and sources to satisfy demand. For now, the goose that once laid a golden egg, looks instead like it, well, laid an egg."

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border, Trump has threatened to tear up the North American Free Trade Agreement, which is currently being renegotiated. Trump's recent actions have drawn criticism from other Mexican politicians; Andrés Manuel López Obrador, the center-left populist presidential candidate with a comfortable lead in the polls, on Wednesday said Mexico would "not accept the use of force, the militarization of the border."

BUSINESS NEWS

United Insurance Opens New Firm in Colombia

British reinsurance firm United Insurance Brokers has opened a retail brokering firm in Colombia, Insurance Journal reported Thursday. The London-based insurer named Yolanda Guerra, formerly of AON, Seguros de Previsora, Allianz and Helm, as CEO of the new firm UIB Seguros. Guerra will report directly to Tony Dilley, CEO of UIB International. UIB International already has a presence in the country through its subsidiary UIB Colombia, but it is looking to expand its retail operation and secure tenders for public sector contracts through the new venture, according to Dilley. "Colombia is a stable country with a strong economy which has weathered the recent world recession extremely well and our business there continues to grow profitably," Dilley said.

LATAM Airlines Cancels Chile Flights Ahead of Strike

Chile-based LATAM airlines announced that it has canceled and rescheduled several flights in anticipation of a strike next week by a flight attendants' union, La Tercera reported late Wednesday. The airline said it is canceling flights in Chile between April 10 and 13 as a precautionary measure while it seeks to reach an agreement with the flight attendants. The strikes, which were originally planned for this

COMINGS & GOINGS

Jamaican Prime Minister Shuffles Cabinet

Jamaican Prime Minister Andrew Holness last week restructured his cabinet, naming Nigel Clarke to run the Ministry of Finance while shifting Audley Shaw, who previously held the post, to the Ministry of Industry, Commerce, Agriculture and Fisheries, the Jamaica Gleaner reported. Fayval Williams, who held the post of state minister for finance and the public service, has been promoted to senior minister in that ministry, making Williams the first senior female minister in the Ministry of Finance, according to the report.

Moody's Names Fernandez as Head for Latin America

Moody's Investors Service this week promoted Martin Fernandez Romero to managing director and named him the ratings agency's new regional head for Latin America. Based in Buenos Aires, Fernandez Romero has been with Moody's for nearly 15 years, most recently as senior vice president-country manager for Argentina and manager for the structured finance franchise in Latin America. He began his Moody's career as lead credit analyst for structured finance transactions across Latin America.

MUFG Taps Salgado for Corporate Banking Position

Japan's Mitsubishi UFJ Financial Group, or MUFG, last month hired Sandy Salgado as the head of its Latin America Corporate Banking group. Salgado, who will be based in New York, joined MUFG after four years at Banco Santander, where he was head of consumer, retail and healthcare for North America. Before working at Santander, Salgado spent seven years with BBVA where he was chairman of BBVA Securities and head of Wholesale Banking and Asset Management, USA. He was also employed at Citigroup, based for 15 years in Argentina and Brazil.

Insigneo Brings on Former Citi Banker as New CEO

Miami-based Insigneo announced Tuesday that Daniel de Ontañón will join the company as CEO, effective April 30. Raul Henriquez will step down from that role but will continue as chairman of the board. Insigneo has a presence in five Latin American countries and manages more than \$8.5 billion in customer assets. De Ontañón most recently served as head of Americas Investment Services at Citi Private Bank and previously held other roles at Citi.

week, were postponed when LATAM requested that the Chilean government mediate the dispute. The mediation review is set to end Monday. The disruptions come after 95 percent of the members of the Union of Crew Members of LAN Express voted in favor of the strike on March 28 and 29. The company announced that, as of Wednesday night, the strike would only affect flights within Chile. Workers are

reportedly protesting scheduling arrangements that have them working as long as 10 consecutive days, for up to 12 hours per day. LATAM airlines was created in 2012 in a merger of Chilean firm LAN and Brazil's TAM. The company has said customers with flights scheduled during the strike period have the option of obtaining a refund, rescheduling or changing the points of departure or destination.

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A **Jonathan Benjamin-Alvarado, assistant vice chancellor for student affairs and professor of political science at the University of Nebraska Omaha:** “The Dominican

Republic and other Caribbean nations may succeed in attracting international investment, especially if they are willing to allow international oil companies to hold concessions or have some other agreement that will ensure a solid return on investment. So under what conditions might that come to pass? If, after the exploratory phase, which these Caribbean states would likely have to finance, the results demonstrate that oil and gas extraction is worth the effort, we may see international investment. The extent to which there is adequate upstream and downstream infrastructure will also affect investors’ interest. During the run-up to Cuba’s attempt to find offshore oil and gas reserves, it became apparent that even though there were significant reserves in the Gulf of Mexico, the effort ended up being essentially fruitless and very costly. The states in question can rely on U.S. companies in a way that Cuba could not because of the embargo. There may be deepwater reserves in the region, but relevant issues such as an appropriate market niche, environmental considerations, long-term prices of oil and gas, and start-up costs might become vexing issues. There is no way to know if market forces, after a significant investment, might undermine these attempts or if any of these states will ever be able to turn a profit. These island states’ dependence on energy imports is a key factor for shaping oil and gas investment decisions in the Caribbean. Another is the insecurity due to the virtual collapse of oil supplies from Venezuela to the rest of the region. Investing in domestic energy resources may be a way to minimize the impact of oil imports, especially if these states can develop associated resources such as oil refining plants, chemical processing facilities, pipelines, ports and oil storage

facilities to create energy markets for the region. Over the long haul these states should see the development of these resources as a point of departure for the development of sustainable energy for the future.”

A **Jorge R. Piñon, director of the Latin America and Caribbean Energy Program at the Center for International Energy and Environmental Policy at the University of Texas at Austin:** “The notion that the Caribbean is poised to become the next major oil region is a bit premature and highly speculative. With the exception of Trinidad and Tobago’s Columbus Basin and the Guyana-Suriname Basin, oil and gas exploration efforts in recent years in deep waters off the Bahamas, Cuba, Nicaragua, the Dominican Republic and Jamaica have not materialized or resulted in any commercial discoveries. Frontier areas are facing stiff competition for the limited capital of the major and large independent oil companies, as well as competition from emerging and proven geological basins such as Guyana-Suriname, deepwater Brazil and the Mexican portion of the Gulf of Mexico. The Greater Caribbean region’s unknown risks are not only its unproven resource base, but also surface issues such as fiscal and contractual terms and conditions, political stability and security, infrastructure and labor, environmental regulations and legal, regulatory and governance risks. And then there is the unconventional proven resource base potential in the United States. In its 2017 report, Canada’s highly respected Fraser Institute Global Petroleum Survey ranked Texas as the number-one jurisdiction in the world as ‘the most attractive or least likely to deter investment.’ Not a difficult choice to make on where to invest.”

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

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