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FEATURED Q&A

Will Argentina Capitalize on its Oil Prospects?



Argentine President Mauricio Macri's government has seen interest in its offshore oil blocks from multinational oil firms, including Norway-based Equinor and U.S.-based Anadarko Petroleum. // File Photo: Argentine Government.

Q Argentina last month invited oil companies to present bids for drilling and exploration projects in offshore areas. Major firms such as Shell and Equinor are considering presenting bids in the auction, Reuters reported. What are the prospects for the areas that are up for exploration, which include blocks on the continental shelf? Can Argentina avoid the fate of Uruguay, whose oil auction on April 26 failed to attract any bids? If so, how? Have the country's recent problems controlling the devaluation of its currency, as well as talks over a potential stand-by loan deal with the IMF, affected investor confidence in Argentina's oil and gas sector?

A Jose L. Valera, partner at Mayer Brown LLP: "Argentina's continental shelf is larger than that of the United States in the Gulf of Mexico. The offshore blocks on offer, all for exploration, cover approximately 200,000 square kilometers and are located in the Austral and West Malvinas basins in the south of the country, and in the northern portion of the Argentine Basin closer to Uruguay. Argentina's current offshore production comes almost all from the Austral Basin, with the main operators there being Total, YPF and Sipepetrol. As a whole, Argentina's offshore is underexplored. At least it can be said this time that the 'above ground' risks will be the lowest since the late 1990s. Coupled with foreign exchange reforms already in place, the government is preparing a very competitive legal and contract framework. There will be no mandatory association with a state-owned company, and aside from the general corporate income tax, the only government take will be a royalty of between 5 percent and 12 percent. There will be no

Continued on page 3

TODAY'S NEWS

POLITICAL

Businesses Closed, Streets Blocked in Nicaragua Strike

Streets in the Central American country's cities were deserted Thursday as shops, banks and other businesses closed in protest of President Daniel Ortega's government. Several main roads were also blocked.

Page 2

ECONOMIC

Mexico Reportedly Eyes Tariffs on U.S. Agriculture

Mexico is reportedly considering tariffs on \$4 billion worth of imports of U.S. corn and soybeans if U.S. President Donald Trump escalates a trade dispute with the country.

Page 2

POLITICAL

Pence to Visit Brazil, Ecuador, Guatemala

U.S. Vice President Mike Pence plans to visit the three countries during the last week of June. Among the aims of the trip is to call attention to the deepening crisis in Venezuela, Pence said.

Page 2



Pence // File Photo: U.S. State Department.

POLITICAL NEWS

Businesses Closed, Streets Deserted in Nicaragua Strike

Grocery stores, gas stations, banks and other businesses were shuttered Thursday in Nicaragua amid a general strike called by opponents of President Daniel Ortega, *El Nuevo Diario* reported. In Managua and other cities, protesters placed tires, tree stumps and other debris in major roads to block traffic, forcing inter-city buses to cancel trips, the newspaper reported. Few cars were seen on the streets of the capital, which was largely deserted. However, police officers carrying assault rifles were seen patrolling the streets. "Look at this, it's a desert," street vendor Juan José Murrillo, 38, told Reuters, pointing to empty stalls at the usually-busy Huembes market in Managua. Murrillo said he had struggled to earn a living since anti-government protests began in mid-April. "I don't support any political party," he told the wire service. "I just want the conflict to end." The protests began after Ortega attempted to cut pension and social security benefits. Ortega's government backed off from the cuts, but the protests evolved into a mass repudiation of Ortega's rule. Government crackdowns on protests have led to the biggest crisis for Ortega since he took office for the second time in 2007. Nearly 150 people have been killed since the protests began two months ago. On Wednesday, the Inter-American Commission on Human Rights condemned what it said was an "excessive use of state force," including attacks by "parapolice" squads, *The New York Times* reported. The next day, Nicaragua's Ministry of Foreign Affairs blasted the commission's statement as "biased," Reuters reported. Ortega said he would resume talks mediated by the Roman Catholic Church to end the political crisis, *The New York Times* reported. However, opposition leaders have expressed fears that Ortega may use the talks as a stalling tactic. "Ortega's response to return to dialogue on Friday shows that these civic measures are giving results," Juan Sebastián Chamorro, a

spokesman for the Civic Alliance for Justice and Democracy, told the newspaper. The alliance is made up of business owners, students, farmers and advocates of civil society. "But we haven't see any willingness from the government to respond to our democratization agenda," Chamorro added. He said the protests and roadblocks would continue.

Venezuela's Maduro Taps Rodríguez as Vice President

Venezuelan President Nicolás Maduro on Thursday named close confidant Delcy Rodríguez as his vice president, saying she is "brave" and has been "tested in a thousand battles," *El Universal* reported. Rodríguez has been serving as head of the government-allied constitutional assembly. As vice president, Rodríguez replaces Tareck El Aissami, who is now becoming Maduro's top advisor on economic policy, the Associated Press reported. Maduro's move makes Rodríguez Venezuela's second female vice president. Six other women were named to 10 other cabinet positions on Thursday. Rodríguez's brother, Jorge Rodríguez, is Maduro's communications minister.

ECONOMIC NEWS

Caputo Tapped as Argentine Central Bank Chief

Argentine President Mauricio Macri on Thursday named Luis Caputo to be the country's new central bank chief, replacing Federico Sturzenegger who has resigned, *Bloomberg News* reported. The indebted nation's peso currency fell 6 percent Thursday, closing at a record low of more than 26 pesos against the U.S. dollar. In his resignation letter, Sturzenegger, a respected academic who has also served in Congress, appeared to take some of the blame for ongoing currency volatility, Reuters

NEWS BRIEFS

Argentina's Lower House Votes to Allow Abortion, Bill Now Goes to Senate

The lower house of Argentina's Congress on Thursday voted 129-125 in favor of legislation to allow abortions during the first 14 weeks of pregnancy, *The Wall Street Journal* reported. If enacted into law, Argentina would become the most populous Latin American nation to ease antiabortion laws. The bill now faces debate in the Senate, where the vote is also expected to be tight, according to the report. Conservative President Mauricio Macri has said that while he opposes abortion, he would not veto the legislation if approved in Congress.

Pence to Visit Brazil, Ecuador, Guatemala

U.S. Vice President Mike Pence announced Thursday he will make his third trip to Latin America in less than a year later this month, the Associated Press reported. On June 26, Pence will meet with Brazilian President Michel Temer in Brasília before visiting Manaus, where he wants to bring attention to the plight of Venezuelan migrants who have fled to Brazilian border areas. In Ecuador, Pence will meet with President Lenín Moreno in Quito on June 27. In Guatemala, his final stop, Pence will offer U.S. support in the wake of the recent volcanic eruption that killed at least 110 people.

Cargill Fund Buying Sugar Cane Processing Plants

A fund held by Minnesota-based Cargill has agreed to buy two sugar cane processing plants from Brazilian biofuels producer Abengoa Bioenergia for \$80 million, *O Estado de São Paulo* reported Thursday. Abengoa Bioenergia, currently in bankruptcy protection, is selling the plants located in São Paulo state. The deal has not yet been finalized, however. Cargill's CarVal fund will inject 100 million reais (\$27 million) into the two operations.

reported. "In recent months, various factors have deteriorated my credibility as president of the central bank, a key attribute needed to carry forward the coordination of such important expectations in the work assigned to me," Sturzenegger said in the letter to Macri, which was made public. Caputo, previously Argentina's finance minister and a former portfolio manager and banker, will need to win back investors who have complained about



Caputo // File Photo: Argentine Government.

a lack of communication and questionable policy moves by the central bank, according to Bloomberg News. Instead of replacing Caputo at the Finance Ministry, Macri's government said Thursday that Nicolás Dujovne, who has been serving as treasury minister, will lead a united Ministry of Finance and Treasury. Last month, Dujovne helped negotiate a \$50 billion stand-by loan arrangement for Argentina from the International Monetary Fund, a politically controversial move at home that had brought relative calm to international currency markets in recent weeks.

Mexico Reportedly Eyes Hitting U.S. With Agricultural Tariffs

Mexico is considering hitting the United States with new tariffs on \$4 billion worth of annual imports of corn and soybeans if President Donald Trump escalates a trade dispute with the country, officials told Reuters this week. Earlier this year, Mexico held back on including corn and soy among the products slated to be hit with retaliatory tariffs after Trump imposed levies on steel and aluminum. Because those products are used to feed Mexico's animal

FEATURED Q&A / Continued from page 1

local content obligations, although there will be obligations to hire and train nationals. Contracts will not be subject to pre-set termination dates, and areas may be held for so long as there is production through optional extensions. Disputes will be subject to international arbitration. The country's recent issues should not affect investor confidence in Argentina's oil and gas sector. Private investment will be essential to developing Argentina's vast and varied hydrocarbon resources. Despite serious setbacks in policy implementation, the Macri government is implementing investor-friendly policies, and it should overcome continued resistance to the measures that must be taken to reverse institutional weakness and reduce the fiscal deficit, inflation and market distortions that are the legacy of the prior government."

A **Megan Cook and Rebecca O'Connor, specialists in the political and regulatory risk/strategic affairs practice at Cefeidas Group in Buenos Aires:** "Argentina's upcoming offshore bid round is part of a larger push from the Argentine government to increase domestic production and reduce imports. Despite its abundant hydrocarbons resources, Argentina has come to rely heavily on imports as conventional areas have matured without sufficient investment in new exploration to offset the drop. The national government, which will set the terms for this auction because of the basins' distance from shore, aims to add to production with these resources.

stock, imposing such tariffs would be a "last-ditch option," according to the report. "This issue is one for phase two," of retaliatory actions, said Bosco de la Vega, who heads Mexico's main agricultural lobby. Mexico's move on grains would seek to turn political sentiment in the U.S. corn belt, much of which voted for Trump in 2016, against the Republican leader's policies. Trump has said his trade agenda will reverse deficits with foreign partners. In 2016,

Currently, offshore production represents a small percentage of Argentina's output (2 percent of oil and 17 percent of gas in 2016), and exploration activities are limited. The Energy Ministry, headed by a former Shell executive, has updated offshore exploration permitting regulations and sought significant private-sector input on the bid design and

“Currently, offshore production represents a small percentage of Argentina's output...”

— Megan Cook & Rebecca O'Connor

conditions to make the offer as attractive as possible. Companies can also nominate blocks for inclusion in addition to the initial series of blocks published by the government. The government hopes these efforts will make its first offshore exploration auction in three decades a success, especially as this is the first of two planned rounds. However, the auction is still in its preliminary phases; there is limited information on the resources' profiles, and the government does not anticipate awarding exploration rights until the end of the year. With regard to the recent exchange-rate volatility, it is important to keep in mind that oil and gas investment decisions are long-term and will be more heavily influenced by the Macri

Continued on page 4

the United States exported \$18.7 billion in agricultural products to Mexico and imported \$23.8 billion, a deficit for the United States of \$5.1 billion, The Washington Post reported. However, economists say the deficit could be viewed as a sign of a stronger economy and consumer buying power in the United States, as opposed to a situation where U.S. farmers are being treated "unfairly," as Trump asserted in a tweet earlier this month.

FEATURED Q&A / Continued from page 3

administration's general economic reforms, which the industry sees as very positive. The administration's response signals its commitment to pursuing these policies and should reassure investors. However, confidence in Macri's economic agenda is not the only issue in play. The areas up for auction in this round must compete for limited exploration resources with an attractive slate of opportunities available in other countries in Latin America and the world, as well as with other resources in Argentina like the famous Vaca Muerta shale formation."

A **Leni Berliner, president of Energy Farms International:** "There is a lot of competition at present for South American offshore exploration and production rights, mostly from Brazil, Mexico and Guyana. Whether it makes sense for a company to bid on such rights depends on several factors: its reserves, its technological capabilities, the availability of processing and transport infrastructure, the revenue sharing offer from the government, and the company's view of medium and long-term price movements. The oil and gas business, including the shale business, is very capital intensive, and corporate financing is a function of proven, accessible reserves. The ability to manage medium- and long-term currency risk is thus an important

factor in decision-making. Beyond currency risk, is there adequate infrastructure? Will there be enough rail, refining and pipeline capacity to finally get Vaca Muerta off the ground? Are there adequate on-shore sup-

“There is a lot of competition at present for South American offshore exploration and production rights...”

— Leni Berliner

port facilities near enough to the desirable offshore blocks? What are the risk-sharing rules for environmental disasters on the continental shelf? No doubt Argentina has contemplated these and other questions such as human resource availability and the role of YPF and structured the auction accordingly. The success of the auction from the perspective of the companies boils down to the collective answer to the question: buy or build?"

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