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FEATURED Q&A

Will AMLO Be Able to Boost Mexico's Oil Production?



Mexican President-elect Andrés Manuel López Obrador is betting that further investment and a new refinery will boost Pemex's oil and gas production. // File Photo: López Obrador Campaign.

Q Mexican president-elect Andrés Manuel López Obrador said last month that his government will earmark more than \$9 billion for state-run energy companies next year and start working on a new oil refinery in southern Mexico. The moves seek to reduce reliance on fuel imports from the United States while boosting the country's oil production, which has significantly fallen off in recent years. López Obrador did not say how he would fund his proposals, an omission that worries analysts concerned about Pemex's already heavy debt burden. He also announced Octavio Romero Oropeza as the incoming head of Pemex. Will the promised investment help accelerate Pemex's oil and gas production? What else is needed to boost output? How well prepared is Romero Oropeza to lead Pemex, and what should his priorities be?

A David Shields, independent energy consultant based in Mexico City: "In a previous comment for the Energy Advisor on June 15, I mentioned that President-elect López Obrador's energy team has excellent, progressive plans in renewable energy. Sadly, the same does not apply to conventional energy. The naming of Octavio Romero and Manuel Bartlett to head state-run Pemex and the Federal Electricity Commission (CFE) has been severely criticized because of their hard-line political, ideological, non-technical, non-business nature. They may be okay for rooting out corruption, but they add to fears that recent energy reforms may be rolled back, even if they and López Obrador himself deny legal amendments will be made. Congress

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TODAY'S NEWS

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Peru Grants Asylum to Hundreds of Venezuelans

Peru's government granted asylum to Venezuelan migrants fleeing political and economic turmoil in their home country.

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Mexico's Economy Contracts in Second Quarter

The country's gross domestic product declined a seasonally adjusted 0.2 percent as compared to the first quarter, a larger decline than expected.

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POLITICAL

Anti-Corruption Vote Fails to Reach Quorum in Colombia

Millions of Colombians cast ballots Sunday in favor of several anti-graft measures. However, not enough Colombians voted in order to push the measures forward. President Iván Duque had backed the initiatives.

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Duque // File Photo: Colombian Government.

POLITICAL NEWS

Anti-Corruption Vote Fails to Reach Quorum in Colombia

Millions of Colombians voted Sunday in favor of seven referendum proposals intended to fight corruption, but the vote failed to reach a minimum participation threshold, stopping the initiatives from moving forward, *El Tiempo* reported. Nearly 11.7 million Colombians, less than a third of the country's 36.4 million eligible voters, went to the polls for the vote. Moving the initiatives forward would have required at least 12.1 million votes for each of the referendum questions. Still, the turnout was higher than expected, and the initiatives' backers took the result as a message from citizens that legislators should enact laws in order to boost the efficiency of public spending and also end special privileges for lawmakers, the Associated Press reported. "This historic vote, this decisive victory by free citizens, gives a clear and strong mandate to the government and Congress," said Claudia López, a former senator and vice presidential candidate who spearheaded the referendum, the AP reported. In the referendum, Colombians were asked whether to impose tougher penalties on corrupt lawmakers, whether to impose term limits on members of Congress and whether to slash their salaries by 40 percent. The initiatives also

asked whether to require elected officials to publish their tax returns, Reuters reported. The measures had more than 99 percent support. Colombian President Iván Duque, who took office earlier this month, backed the measures and has called corruption a "cancer." However, other members of Duque's party, including his mentor, former President and current Senator Álvaro Uribe, have voiced support for anti-corruption measures in Congress instead of the referendum measures. Late on Sunday, Duque called on lawmakers to support anti-graft measures and citizens to report instances of corruption. "Together we'll defeat those who ransack public resources, together we'll build the future that Colombia deserves," he said.

Peru Grants Asylum to Hundreds of Venezuelan Migrants

Peru granted asylum to hundreds of Venezuelans arriving there on Saturday even after a new regulation requiring migrants to show a passport when entering the country came into effect, *El Comercio* reported. In one of the largest mass migrations in Latin American history, more than 1.6 million Venezuelans have left their country since 2015, fleeing political and economic turmoil, as well as shortages of food and other basic goods, according to the United Nations, Agence France-Press reported. On Saturday, Ecuadorean Interior Minister Mauro

NEWS BRIEFS

U.S. Mexico Reach Preliminary Deal on Revising NAFTA

U.S. and Mexican negotiators have reached a preliminary agreement on revising key parts of the North American Free Trade Agreement, *The New York Times* reported today. A preliminary deal could be announced as early as today, the newspaper reported. Mexico's chief negotiator, Ildefonso Guajardo, and the other members of Mexico's delegation arrived at midday Sunday at the office of the U.S. Trade Representative after negotiating in Washington for weeks, *The Wall Street Journal* reported.

Hundreds March in Costa Rica in Support of Nicaraguan Migrants

Hundreds of people in Costa Rica marched on Saturday in solidarity with the more than 20,000 Nicaraguan migrants who have requested asylum there to escape violence in their home country, *BBC News* reported. The march comes after an anti-migrant protest a week ago sparked criticism from the government, the private sector and human rights organizations. [See related [Q&A](#) in the Aug. 24 issue of the Advisor.]

Venezuela's PDVSA Appeals U.S. Judge's Ruling in Crystallex Case

Venezuelan state oil company PDVSA on Saturday said it had filed an appeal against the ruling of a U.S. federal judge that allowed defunct Canadian gold miner Crystallex to seize PDVSA's U.S. subsidiary, PDV Holdings, which owns the Houston-based refinery Citgo, Reuters reported. PDVSA said on Twitter that it had requested the Delaware District Court to "acknowledge" it has been "divested of jurisdiction with respect to PDVSA and its property." [See related [Q&A](#) in the Aug. 24 issue of the Energy Advisor.]

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will ultimately decide on this, and the outlook there is bad. Reforms can be reversed in practice, anyway, just through day-to-day opposition. López Obrador says he will push oil output up sharply to 2.5 million barrels per day, but reserves and reservoirs are largely depleted, there are no new discoveries, and there is not enough money for a vast exploration effort. Foreign operators will need several years to develop their projects. His best bet for ramping up output quickly would be fracking, but he promises to prohibit that, thinking that environmental risks

will be greater than the benefits. His refining plans are unrealistic, too. López's native Tabasco State offers the wrong site and the wrong logistics for a large-scale refinery to be built in just three years. Such a project normally requires two years to study, plan and tender, then another five or six years to build. Even then, it can hardly be profitable if Mexico produces and processes only very heavy crude. Intentions to rescue Pemex and reduce reliance on energy imports are good, but the prospects are not."

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Toscanini said Ecuador had opened a “humanitarian corridor” for Venezuelans crossing the country to reach Peru before the deadline, with some 35 buses transporting migrants via authorized routes, AFP reported. Peru and Ecuador had recently announced tighter entry requirements for Venezuelans, including demanding them to have a valid passport, which the Venezuelan government is not issuing, to cross the border. Peruvian Foreign Minister Néstor Popolizio told El Comercio on Sunday that the measure was not intended to “prevent Venezuelans from entering,” but rather to have “better organized” and “safer” migration. He also said Peru’s government was analyzing the possibility of granting humanitarian visas for Venezuelan refugees. [See related [Q&A](#) in the Aug. 24 issue of the Advisor.]

ECONOMIC NEWS

Mexico’s Economic Activity Contracts in Second Quarter

Mexico’s National Statistics Institute said Friday that the country’s economic activity had contracted more than expected in the second quarter as losses in industrial output, particularly oil and gas, and agricultural production, outweighed gains in services. GDP declined a seasonally adjusted 0.2 percent as compared to the previous quarter, with industrial production falling 0.3 percent, agricultural production dropping 2.1 percent and services rising 0.2 percent. The revised result is an annualized contraction of 0.6 percent, below the 0.3 percent decline the statistics agency had estimated last month, El Financiero reported. But some analysts say the numbers may be misleading. “It’s not as bad as it looks. The drop in GDP in the second quarter is payback after good growth in the first quarter of 2018 and the fourth quarter of 2017,” Bill Adams, senior economist at PNC Financial Services Group, told The Wall Street Journal. Compared with the same quarter last year, GDP grew 2.6 percent this year. Oil and gas production, which fell 7.9 percent in the quarter, brought

industrial activity and the overall figure down, despite 3.3 percent growth in manufacturing. Julio Santaella, the president of the statistics institute, said GDP would be up by 3 percent in the second quarter excluding oil and gas.

BUSINESS NEWS

Workers Abducted, Released at Tahoe Unit in Guatemala

Twelve workers who had been providing unarmed contract security services at a Tahoe Resources unit in Guatemala were abducted for several hours on Friday before being released, Reuters reported. The workers were injured and held at gunpoint during the ordeal, the

U.S.-based company said in a statement. The company did not elaborate on the nature of the workers’ injuries, but it said that police had escorted them to a hospital in Jalapa, east of Guatemala City, for treatment. The captors of Tahoe’s Minera San Rafael unit identified themselves as the “Peaceful Resistance Group of Mataquescuintla,” the company said. Earlier in the week, the group had set up a barricade on a public road at the entrance to the municipality of Mataquescuintla in Jalapa department. The blockade was located approximately three miles from Tahoe’s Escobal silver mine. The mine has been inactive since last year after Guatemala’s highest court suspended the company’s operating license following allegations by an anti-mining group that Guatemala’s Energy and Mines Ministry had not properly consulted the Xinca indigenous group. Also, the company last week laid off about 200 workers at the Guatemalan unit.

COMINGS & GOINGS

Trinidad & Tobago’s Rowley Shuffles Cabinet

Trinidad and Tobago’s prime minister, Keith Rowley, on Aug. 7 named Stuart Young as the country’s new minister of national security amid a cabinet reshuffle, Caribbean 360 reported. Young will continue serving as minister of communications. As minister of national security, Young will replace Edmund Dillon, who will now become the minister of housing and urban development. Additionally, Rowley appointed Gary Griffith to head the country’s police.

DLA Piper Announces Addition to Litigation Practice

DLA Piper announced Aug. 6 that Lida Rodríguez-Taseff joined the firm’s litigation practice in Miami. Rodríguez-Taseff has experience in a variety of areas, including corporate governance, business torts and contracts, non-compete agreements, intellectual property and trade secrets, among others. She previously worked at Duane Morris LLP. Rodríguez-Taseff is a member of several boards of directors, including at LatinoJustice PRLDEF, Audubon of Florida and Community Justice Project, Inc.

Walmart Announces New Latin America Director

Retail giant Walmart announced Aug. 6 that Christian Gomez has been named the company’s new director of global government affairs for Latin America. Gomez had worked as senior manager in the same division since 2017. Before Walmart, Gomez worked as an economic growth advisor at USAID and, previously, as director of energy at Americas Society/Council of the Americas.

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A Paola Carvajal, principal of the energy practice at Arthur D. Little: “The increase of Pemex’s upstream investment budget would be, without doubt, a positive measure to boost Pemex’s future production. International companies with similar production levels invest up to two times more than Pemex annually. However, reaching the goal that

“**The new chief executive, Romero Oropeza, will have to face several technical, financial and social challenges...**”

— Paola Carvajal

the incoming government announced would require not only increasing financial resources, but also strengthening the internal capabilities of the network operations center to optimize the current operations and speed up the exploration and development of new reserves. To increase Mexico’s oil production in the long term, the country does not only depend on Pemex operations. Several international oil companies that recently opened operations in the country (some of them in association with Pemex) have received approval from the National Commission for Hydrocarbons for the evaluation and development of their assigned areas. Therefore, a positive business environment could help speed up their projects’ development, adding new reserves and production. The new chief executive, Romero Oropeza, will have to face several technical, financial and social challenges when he takes office in December. However, one of the most critical steps will be to reconcile the promises of the new government and its electorate’s expectations with regard to the company’s current business plan maintaining the trust

of Pemex partners and investors in the Mexican industry.”

A Luis Miguel Labardini, partner at Marcos y Asociados Infraestructura y Energía in Mexico City: “The López Obrador energy strategy intends to strengthen the two former monopolies in order to use them as an instrument of public policy to enhance national sovereignty over energy and natural resources. The appointments made by the future president show that the energy reform will go ahead, but with an important twist that resembles what has happened in other countries such as Brazil. The final outcome should be to have a strong and leading energy company in the case of Pemex and CFE, the federal electricity commission, that will protect the interest of the country beyond the market rationale, and look for self-sufficiency and the protection of non-renewables in the long term. The heads of these two

“**The final outcome will be a modified reform that will slightly influence the market without disrupting it...**”

— Luis Miguel Labardini

public companies are expected to defend them from an ecosystem that will progress in its market orientation, and at times, they might get a little push from the president himself. The final outcome will be a modified reform that will slightly influence the market without disrupting it in order to promote the sovereignty and self-sufficiency of the Mexican energy market.”

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