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FEATURED Q&A

What Can Colombia Expect From its New Energy Minister?



Colombian President-elect Iván Duque named María Fernanda Suárez as the country's new minister of mines and energy. // File Photo: @IvanDuque via Twitter.

Q **María Fernanda Suárez, a senior executive with Colombian state oil company Ecopetrol, is President-elect Iván Duque's selection to run the country's energy and mining ministry. After Duque's government takes office Aug 7, Suárez is expected to take on the challenge of boosting oil output to help accelerate Colombia's sluggish economy and dealing with environmental disputes over mining practices. What should be Suárez's top priorities? What will it take to increase oil sector investment, production and reserves? What other areas of the energy portfolio will demand her attention?**

A **Sam Benstead, politics analyst for the Americas at Verisk Maplecroft:** "Iván Duque's pick for the energy and mining ministry, María Fernanda Suárez, aims to reduce taxes so as to attract more investment, but will struggle to improve the legal uncertainties around the issue of popular consultations at the local community level. Colombia urgently needs to increase oil production, with reserves forecast to run out in about six years without new development. Both production and exploration have fallen since 2015, owing not only to the price slump, but also to the uncertain legal and operating environment. To improve the fiscal environment, the new government may look to reduce the corporate income tax. While the rate is already due to fall to 33 percent in 2019 (from 40 percent in 2017), it is still the fourth-highest in the OECD. A bigger challenge for Suárez is to improve the legal framework. The Colombian Petroleum Association estimates that one-fifth of current oil production is at risk from popular consultations, and there are 23 votes related to the mining sector expected in 2018. A constitutional

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TOP NEWS

ELECTRICITY

Brazil's Equatorial to Buy Cepisa for \$25.5 Million

Brazilian electricity company Equatorial Energia will buy state-run Eletrobras' subsidiary Cepisa for \$25.5 million. It was the auction's only bidder.

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RENEWABLES

Argentina Eyes Boosting Ethanol in Gasoline

The Argentine Ministry of Mining and Energy is reportedly considering increasing the volume of ethanol in gasoline to 27 percent, based on Brazil's model.

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OIL & GAS

Mexico's López Obrador To Invest More in Pemex

Mexican President-elect Andrés Manuel López Obrador on July 27 said he would invest more than \$9 billion for state-run energy companies in 2019. He has also vowed to open a new oil refinery in southern Mexico to reduce the country's dependence on U.S. imports.

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López Obrador // File Photo: Government of El Salvador.

OIL AND GAS NEWS

Mexico's President-Elect to Invest More in State Energy Firms

Mexican President-elect Andrés Manuel López Obrador on July 27 said his government will earmark more than \$9 billion for state-run energy companies next year and start work on a new oil refinery in southern Mexico in order to slash reliance on fuel imports from the United States, The Wall Street Journal reported. A former mayor of Mexico City, López Obrador, who takes office Dec. 1, said he will aim to boost the country's crude oil production to 2.5 million barrels per day (bpd) from the current 1.9 million bpd. State-run oil company Pemex has struggled to increase production, forcing



López Obrador campaigned on behalf of Romero Oropesa (L) in 2016. // File Photo: lopezobrador.com.mx

the one-time oil exporter to rely on imports for its refineries. "Fourteen years ago, oil production was 3.4 million barrels a day. Now it's 1.9 million barrels a day," López Obrador said at a news conference. "In 14 years, we've lost 1.5 million barrels a day in production, a downward trend because the oil industry was abandoned." López Obrador also said he would boost upstream spending for exploration and drilling new oil and gas wells by \$4 billion. López Obrador did not say how he would fund his proposals, the Financial Times reported, an omission that worries analysts concerned about Pemex's already heavy debt burden. López Obrador has named Octavio Romero Oropesa, an agronomist from his home state of Tabasco, to take the helm of Pemex. Current President Enrique Peña Nieto overcame years

of opposition and opened oil exploration and production to private and foreign companies and increased the scope of private investment in the power sector. But rising output has been slow to materialize. In the first six months of 2018, Pemex had one of its worst-performing half-year periods in decades in terms of output, América Economía reported Tuesday. Crude production fell to an average of 1.88 bpd, and natural gas production dropped to 4.82 million cubic feet per day. There was a 6.7 percent decrease in petroleum output year-on-year, producing an average 134,000 bpd less than the first half of last year. Financially, the company suffered a \$2.68 million net loss, exacerbated by a run on the peso. Sales, however, were up to record-breaking highs as crude exports rose by 47 percent. López Obrador has yet to make clear whether he intends to continue with oil tenders that have seen more than 100 contracts awarded to 73 companies since 2015 under the landmark reform. As a candidate, he offered several proposals regarding renewable energy, such as expanding hydropower and introducing more electric vehicles. Although Mexico has been a leader in international climate change negotiations, less than a quarter of its installed power capacity comes from renewable sources, well below the Latin American average of about half. [Editor's note: See related [Q&A](#) on Mexico's energy sector under López Obrador in the June 15 issue of the weekly Energy Advisor.]

Colombian Charged in PDVSA Money Laundering Case

A Colombian national was arrested July 25 in connection to an open case by the U.S. Department of Justice investigating an alleged scheme to launder some \$1.2 billion from Venezuelan state-owned oil company PDVSA through Florida, Reuters reported, citing U.S. federal prosecutors. Gustavo Adolfo Hernández Friero was arrested in Italy and faces extradition to the United States on charges of conspiracy to commit money laundering. "Venezuela's state of social, political and economic

NEWS BRIEFS

López Obrador Says Mexico Will End Fracking Practices During his Term

Mexican President-elect Andrés Manuel López Obrador on Tuesday told reporters he would end fracking in the country, the Associated Press reported. The method, which has been criticized for its environmental effects, is still relatively uncommon in Mexico, but the country has oil fields with significant potential, the AP reported. The current Mexican government recently planned a public auction of blocks with the specific aim of extracting oil and gas through fracking practices.

Brazilian Authorities Probe Petrobras, Shell in Price Fixing Scheme

Brazilian authorities are investigating Petrobras Distribuidora, a subsidiary of state-run oil company Petrobras, Ipiranga and Raízen, for alleged involvement in a scheme to fix fuel prices, police in Paraná State said Tuesday, Reuters reported. Police said they were processing eight arrest warrants and 12 raid orders. Ipiranga is a unit of Ultrapar Participações, while Royal Dutch Shell and Cosan co-own Raízen. Together, the three firms control more than two-thirds of Brazil's fuel distribution market. Petrobras Distribuidora and Raízen both denied wrongdoing, while Ipiranga did not comment, Reuters reported.

Jamaica's Wheatley Resigns Cabinet Post

Jamaican Minister of Science and Technology Andrew Wheatley resigned his cabinet position on Monday in the wake of ongoing corruption investigations at state-run refinery PetroJam, the Jamaica Gleaner reported. Wheatley had resigned as energy minister weeks ago over the controversy, but had retained the science and technology portfolio. The opposition party said Wheatley's resignation "was long overdue."

crisis in which multibillion-dollar corrupt and criminal ecosystems thrive drives rivers of criminal proceeds through south Florida,” said the complaint, which was issued in a federal court in Miami. The complaint also targeted several high-level Venezuelan officials, including Abraham Edgardo Ortega, former executive director of finance at PDVSA, and Carmelo Urdaneta AQUI, a former legal advisor to Venezuela’s ministry of oil and mining, the wire service reported. The U.S. Justice Department has several open probes into corruption-related cases involving PDVSA. In July, former Venezuelan official Luis Carlos de León Pérez pleaded guilty in a Houston federal court to bribing PDVSA officials in exchange for energy contracts for U.S. companies, The Wall Street Journal reported. De León Pérez was part of a larger investigation that includes 14 other individuals charged with bribery.

POWER SECTOR NEWS

Brazil’s Equatorial Wins Eletrobras Subsidiary in Auction

Brazilian electricity company Equatorial Energia on July 26 was the only bidder in the most recent auction round of the privatization process of Eletrobras, Brazil’s state-run power utility, Folha de S.Paulo reported. Equatorial will pay 95 million reais, or \$25.5 million, for Eletrobras’ distribution subsidiary in Piauí, Cepisa, and will have to invest an additional 720 million reais

Cepisa is the first of several subsidiaries Eletrobras plans to sell.

in the company. The successful bid, which gives Equatorial a nearly 90 percent stake in Cepisa, boosted the company’s shares by as much as 4.6 percent, Reuters reported. Meanwhile, Eletrobras’ shares dropped by at least

FEATURED Q&A / Continued from page 1

amendment is required to legally block the consultations. This would require a two-thirds vote in Congress, tricky for the Duque government given the fragmentation in both chambers. Moreover, the issue of environmental protection is very sensitive nationally, thus making a constitutional change all the more difficult.”

A Leopoldo Olavarría, partner and head of energy in Latin America, and Inés-Elvira Vesga, head of oil and gas in Latin America, both at Norton Rose Fulbright: “María

Fernanda Suárez’s top priorities as minister of mines and energy should be the following: first, to complete the implementation of the National Hydrocarbons Agency (ANH)’s Accord 2 of 2017, whose stated purpose is to increase investments by qualified companies in the upstream sector, and increase production and reserves levels. Accord 2 now allows the ANH to award contracts to companies it has pre-qualified through a permanent call for tenders, which has yet to be implemented. In this regard, ANH recently published for consultation terms of

6 percent after Cepisa, which is one of the most attractive assets among the six indebted distributors the state firm wants to sell, drew just one bidder. When questioned about the auction’s low participation, Brazilian Minister of Mines and Energy Wellington Moreira Franco said “the government simply hoped to get started” with the privatization process, referring to a series of legal blocks that Eletrobras has faced, Folha de S.Paulo reported. The Supreme Court in June ruled that all privatizations must be approved by Congress, which delayed Eletrobras’ sale of five other subsidiary units in the states of Acre, Amazonas, Rondônia, Roraima and Alagoas until Aug. 30. Augusto Miranda, president of Equatorial, said the company is looking at other state distributors, whose joint symbolic value equals 50,000 reais. Equatorial also participated in previous transmission line auctions, winning eight lots, Folha reported.

reference. In their comments, the Colombian Petroleum Association’s members consider the implementation of this new procedure to be urgent, since the ANH last awarded areas competitively in 2014. Ms. Suárez should en-

“Fracking activities in unconventional areas is required to counter Colombia’s declining reserves to production ratios.”

– Leopoldo Olavarría & Inés-Elvira Vesga

sure that the ANH urgently issues new rules that will allow the implementation of the permanent call procedure, the creation of ANH’s Registry of Interested Parties, and publication of the so-called Map of Areas, listing and identifying available areas. Second, she should to lead a debate regarding the pros and cons of hydraulic fracturing, or fracking, based on adequate technical and environ-

Continued on page 6

Argentina Considers Boosting Ethanol in Gasoline Blend

The Argentine government is reportedly looking to increase the volume of ethanol in its gasoline to 27 percent, Energía Estratégica reported Tuesday ahead of a bioethanol conference in Tucumán Province, citing an industry official. The Ministry of Energy is looking to replicate the Brazilian model, where the bioethanol blend is 27.5 percent and which works to incorporate flex fuel vehicles that use up to 100 percent biofuel. President Mauricio Macri hiked the proportion of ethanol in the blend from 10 percent to 12 percent in 2016, but further increases had been stalled as the government could not reach an agreement on a new percentage with

oil groups and carmakers, Renewables Now reported. Hernán Maurette, president of Argentina's sugar business association and the country's alcohol industry chamber, said raising the ethanol amount to 27 percent would be good news for the sugar industry and, in turn, to the regional economies of Argentine provinces, Energía Estratégica reported. "Learning from Brazilians, who have had a successful process on this [issue], is fundamental," he added.

POLITICAL NEWS

Tens of Thousands Try to Flee Nicaragua Over Turmoil: U.N.

Officials at the United Nations' global refugee agency, UNHCR, said Tuesday that some 23,000 Nicaraguans have sought to leave the country, fleeing political violence and rights violations after weeks of deadly protests against the government of President Daniel Ortega, CBS News reported. Speaking to reporters in Geneva, UNHCR spokesperson William Spindler called for "international solidarity and support for Costa Rica and other countries hosting Nicaraguan refugees and asylum seekers." An average of 200 asylum applications are being lodged daily in Costa Rica, where nearly 8,000 asylum claims by Nicaraguan nationals have been registered since April, and some 15,000 more have been given appointments for later registration. The country's processing capacities have been "overwhelmed," according to the agency. An estimated 100,000 to 150,000 Nicaraguan families already live in Costa Rica, and many are taking in exile families. Panama, Mexico and the United States have also recorded a growing number of claims by Nicaraguans, while Honduras, El Salvador and Guatemala are being used as transit routes, according to the United Nations. Angry street protests broke out April 18 over Ortega's pension reform plan, which has since been dropped, but the repressive response by police and paramilitaries supporting the government added fuel to a fire that rights groups say have claimed upwards of 300 lives. On Tuesday, the Permanent Council of

ADVISOR Q&A

Will Brazil Gain or Lose From a Global Trade War?

Q The escalating trade dispute between the United States and China has prompted the Asian country to turn to Brazil for goods like soy, corn, poultry and pork, increasing the South American nation's agricultural exports. Moreover, Brazilian steel exports to the United States nearly tripled in June, compared to the same period last year, after the Trump administration slapped a 25 percent steel tariff on other trade partners but not Brazil, which instead agreed to limit its exports of the metal. How is the global trade war affecting Brazil's economy in the near term, and what are the consequences for the long term? Will Brazilian producers be able to take advantage of increased demand? Will changing global trade dynamics help boost Brazil's sluggish economic recovery from its deepest recession on record?

A José Guilherme Almeida dos Reis, executive director, and André Soares, consultant on China-LAC trade, both at the Office for Brazil and Suriname at the Inter-American Development Bank: "In the long run, there are no winners in a trade war. Trade is not a zero-sum game, and the only certainty we have is that a trade war ultimately reduces overall trade and economic growth, with negative implications for all countries. The African proverb 'when two elephants fight, it is the grass that suffers' applies very clearly here. There are short-run opportunities associated with trade diversion that can be beneficial for some Latin American countries, and Brazil, being an agriculture powerhouse, is one of them.

Brazil is benefiting from stronger (deviated) demand from China for soybeans. Brazilian soybean exports to China are expected to reach a record high of \$30 billion this year. This represents a 34 percent increase when compared to the average for the past five years (\$23 billion). This growth has been driven both by price and volume. In terms of volume, Brazilian exports have increased 8 percent this year, and stocks have decreased from 5 million to 3.9 million tons. In addition, prices in the northeast ports of Brazil have registered a premium that is 16 percent higher than the price of soybeans sold in the southern Gulf Coast of the United States. Nevertheless, no one wins all battles when at war. When it comes to exports of meat, there are a series of non-tariff barriers that curb Chinese imports from countries such as Brazil. On another front, the recent deal between the United States and the European Union can divert European imports of soybeans from Brazil to the United States. The short-run opportunities do not compensate for the deleterious long-term effects that a trade war has on the world trade architecture. Brazil and other Latin American countries have been firm supporters and beneficiaries of the trade system. With that in mind, countries should maintain their support of the rules-based WTO framework and not be lured into the short-term gains offered by trade diversion."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the July 31 issue of the Latin America Advisor.

the Organization of American States said it will hold a special meeting on Thursday to address

the situation in Nicaragua at its headquarters in Washington. The political crisis is taking an

NEWS BRIEFS

Nicaragua's Ortega Wants International Groups to Join Meditation Talks

Nicaraguan President Daniel Ortega told CNN en Español and the Miami Herald in an interview on Sunday that he wants to "strengthen" the country's mediation commission by adding international organizations in an effort to end the country's bloodshed. Human rights groups accuse Ortega's paramilitary forces of having killed more than 300 protesters over the past three months. Ortega disputed that figure in the interview, saying 195 deaths had occurred.

U.S., Mexico Nearing Deal on Auto Content Rules: Mexican Official

The United States and Mexico are getting close to a deal on auto content rules as they work toward a deal on renegotiating the North American Free Trade Agreement, a top Mexican official said August 1, Reuters reported. Guillermo Malpica, who heads Mexico's trade and NAFTA office, said "we are getting close" to an agreement on rules that dictate how much of a vehicle must be made in the United States, Canada or Mexico to qualify for duty-free treatment.

Mayor in Colombia Charged With Social Leader's Killing

The mayor of Pitalito, a town in the Huila Department of Colombia, on Monday was charged with arms possession and aggravated homicide in a case investigating the murder of social leader Luis Gerardo Ochoa dating back to April of last year, *El Tiempo* reported. The mayor, Miguel Antonio Rico, was arrested Saturday in Bogotá. He has denied wrongdoing. The local prosecutor's office reportedly has evidence, including telephone records, texts and a witness confession.

economic toll. Tourism in Nicaragua has come to a near standstill. Hotels and restaurants have shut down by the hundreds, while the tourism workforce has been cut by more than half, McClatchy reported this week. Central bank chief Ovidio Reyes said the initial 4.9 percent growth in gross domestic product forecast for 2018 could fall as low as 1 percent if protests continue. [Editor's Note: See related [Q&A](#) on the ongoing political crisis in Nicaragua in the July 9 issue of the daily Advisor.]

Peru Gov't Pushes for Referendum on Judicial Reforms

Peruvian Prime Minister César Villanueva said Monday his government is "firm" in its commitment to carry out a referendum on political and judicial reforms in the wake of a corruption scandal involving judges and influence peddling, state news agenda Andina reported. "The important thing here is to implement political and justice system reforms. There is an urgency to make these reforms," he said. Villanueva added that holding the referendum alongside regional and municipal elections scheduled for Oct. 7 would be "ideal." As thousands of protesters took to the streets in recent weeks in peaceful marches, President Martín Vizcarra on Saturday called on the opposition-run Congress to advance plans for the referendum, Reuters reported. The plans include not only fast-tracking judicial reforms, but also gaging support for a ban on private financing of political campaigns, an end to the re-election of lawmakers and the creation of a second chamber in Congress. Without backing from lawmakers, Vizcarra would have to collect hundreds of thousands of voter signatures. "This crisis has reached a breaking point," Vizcarra said. In related news, a judge on Monday rejected former President Pedro Pablo Kuczynski's request to leave the South American nation to receive health treatments in the United States. Kuczynski is under investigation for alleged payments by corruption-tainted Brazilian construction firm Odebrecht to companies linked to him. [Editor's Note: See related [Q&A](#) in the July 19 issue of the daily Advisor.]

ECONOMIC NEWS

Venezuela's Maduro Admits Economic Policies Have Failed

Venezuelan President Nicolás Maduro has admitted that his economic policies have "failed," telling his PSUV party congress this week that he and party members were to blame, Agence France-Presse reported Tuesday. "The production models we've tried so far have failed, and the responsibility is ours, mine and yours," Maduro told party members, as a widespread electricity outage affected the city of Caracas. "Enough with the whining ... we need to produce with or without [outside] aggression, with or without blockades, we need to make Venezuela an economic power," he added. Maduro has consistently blamed external factors and "imperialists" from the United States and else-



Maduro // File Photo: Government of Venezuela.

where for his country's woes. Venezuela has been grappling with inflation at more than one million percent and near total economic collapse. Maduro estimated it will take about two years to stabilize the situation and see the first signs of economic recovery. The Venezuelan president's growth plan focuses on increasing oil production to six million barrels a day "by 2025 or before." Oil production is currently a fraction of that, running at a 30-year low of 1.5 million bpd this year. In related news, Maduro and several family members, including three stepsons, are under investigation as part of a U.S. probe into a scheme that authorities say has pilfered more than \$1 billion from state-owned oil company PDVSA, the Miami Herald reported last week. Maduro has not been charged in the case.

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mental standards. In our view, fracking activities in unconventional areas is required to counter Colombia's declining reserves to production ratios. The third priority should be to lead a debate on the possible changes to the mechanisms for allocation of royalties to prevent systematic above-surface obstacles to mining and hydrocarbons activities. And, fourth, the leadership of debates will require reaching out to important stakeholders, such as the minister of the environment and the National Agency for Environmental Licenses (on fracking), the finance minister (on royalty allocations), and municipalities and departments where these activities are carried out."

A **Antero Alvarado, managing partner and Venezuela director of Gas Energy Latin America:**

"María Fernanda Suárez comes from the finance sector. Her last position was as vice president of strategy and finance at Ecopetrol. At first sight, it seems that her appointment seeks to prioritize the attraction of foreign investment to the energy and mining sectors. In Colombia, the most important issues with regard to the energy sector are, first, the little geology and absence of oil discoveries that extend the

security of supply. In terms of gas, there are some offshore prospects, but they're very deep and very costly. There is an operational regasification plant and another under

“Her appointment seeks to prioritize the attraction of foreign investment.”

— Antero Alvarado

construction that would exclusively supply the electric sector and there is a supply gas contract with PDVSA. The second issue relates to the community and environmental permitting for drilling and the delimitation of the paramo. The third issue is the future of fracking in Colombia, a subject that has simultaneously sparked interest while dividing the population because of its environmental effects."

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

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Watch the July 31 discussion.

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