INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

**Diego Arria**
Director,
Columbus Group

**Genaro Arriagada**
Nonresident Senior Fellow,
Inter-American Dialogue

**Joyce Chang**
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

**W. Bowman Cutter**
Former Partner,
E.M. Warburg Pincus

**Dirk Donath**
Managing Director,
Eton Park Capital Management

**Jane Eddy**
Managing Director, Corporate & Govt. Ratings Group,
Standard & Poor's

**Marlene Fernández**
Corporate Vice President for Government Relations,
Arcos Dorados

**Jason Hafemeister**
Vice President,
Allen F. Johnson & Associates

**Peter Hakim**
President Emeritus,
Inter-American Dialogue

**Donna Hrinak**
President,
Boeing Brazil

**Jon Huenemann**
Vice President,
U.S. & Int'l Affairs,
Philip Morris Int'l

**James R. Jones**
Co-chair,
Manatt Jones Global Strategies LLC

**Craig A. Kelly**
Director, Americas International Gov't Relations
Exxon Mobil

**John Maisto**
Director,
U.S. Education Finance Group

**Nicolás Mariscal**
Chairman,
Grupo Marhnos

**Thomas F. McLarty III**
President,
McLarty Associates

**Carlos Paz-Soldan**
Partner,
DTB Associates, LLP

**Beatrice Rangel**
Director,
AMLA Consulting LLC

**José Antonio Ríos**
Chief Executive Officer,
Vadium Technology Inc.

**Gustavo Roosen**
Chairman of the Board,
Envases Venezolanos

**Andrés Rozental**
President,
Rozental & Asociados and Senior Fellow,
Brookings Institution

**Everett Santos**
President,
DALEC LLC

**Shelly Shetty**
Head, Latin America Sovereign Ratings,
Fitch Inc.

## FEATURED Q&A

### *Will Mexico Be Able to Reform Its Energy Sector This Year?*

**Q Nearly 5,000 members of Mexico's PRI, the Institutional Revolutionary Party, voted unanimously at their national convention last month to remove language in the party's platform that for years had opposed injecting private money into the sector, the Associated Press reported. National oil monopoly Petroleos Mexicanos, or Pemex, will remain in state hands however, party officials insisted. What does the platform change say about the chances for meaningful energy reforms passing Mexico's Congress? Does President Enrique Peña Nieto have the right plan for improving the country's energy sector performance?**

**A David Shields, independent energy consultant based in Mexico City:** "The PRI's overhaul of its statutes will give party lawmakers freedom to make decisions on energy reform and it gives President Enrique Peña Nieto the status of party leader. It may not be entirely auspicious for Mexico's democracy for the president to also be the leader of the ruling party, as it implies concentration of power in one person. However, it may well be vital to energy reform because the decision to get foreign and private investment involved in a more competitive, open Mexican oil industry is very much the president's. The country's political establishment is fickle and fragmented on this issue and it is still not clear just what form reform will take and who will support it. So if Peña Nieto does not put his full weight behind it, the reform may not happen in any meaningful way. Even the PRI may not be united in supporting the changes, but its lawmakers are certainly more likely to back it now that the party's statutes are no longer steeped in nationalistic, protectionist rhetoric. Ahead lies a complex debate on just how best to improve the energy industry's performance, but it seems clear that if the key goal is to increase crude oil production, then Mexico will have to welcome major flows

*Continued on page 3*

### Prosecutors in Brazil Probing Lula in Connection With Scandal

Prosecutors in Brazil announced Friday that they are investigating former President Luiz Inácio Lula da Silva in connection with the so-called "mensalão" vote-buying scandal. Lula has denied any involvement in the scheme, in which several have been convicted.

*File Photo: Lula Institute.*

# Inside This Issue

**FEATURED Q&A:** Will Mexico Be Able to Reform Its Energy Sector This Year?.....1

Floods in Argentina Now Exceed $5 Billion in Damage: Government.....2

Brazilian Prosecutors Investigating Lula for Alleged Corruption.....2

Florida Lawmakers Question Pop Stars' Visit to Cuba.....2

Thirteen Reportedly Killed in Helicopter Crash in Peru.....2

Mexico's Pemex Signs First Long-Term Oil Accord With China.....3

Copyright © 2013, Inter-American Dialogue

## NEWS BRIEFS

### Fidel Castro Warns North Korea to Back Down From Atomic War

Former Cuban President Fidel Castro on Friday warned ally North Korea to tone down its escalating rhetoric threatening nuclear war. In an editorial in Communist Party newspaper *Granma*, Castro said the world is facing "one of the most serious dangers of nuclear war" since the Cuban Missile Crisis. "If war breaks out there, the peoples of both parts of the peninsula will be terribly sacrificed, without benefit to all or either of them," Castro wrote.

### Thirteen Reportedly Killed in Helicopter Crash in Peru

A helicopter chartered by French oil company **Perenco** crashed Sunday in Peru's remote northeastern jungle, reportedly killing all 13 Peruvians aboard, Reuters reported. In a statement, Perenco said that the MI-8 helicopter was on a flight from Iquitos to its field in Block 67 when it crashed. One Perenco employee and representatives of three of its contractors were on board, as well as four crew members.

### Chilean Port Workers Return After Three Weeks of Strikes

Chilean port workers have agreed to return to work after three weeks of strikes that blocked exports, the Associated Press reported Saturday. The strikes began in the northern port of Angamos some 20 days ago when workers demanded a 30-minute lunch break. The strike spread to 10 other ports that joined in solidarity, according to the report. **Ultraport**, the Chilean company managing the Angamos port, agreed late Friday to compensate workers with a bonus. The workers had also been seeking the reinstatement of two union leaders that had lost their jobs, and other concessions.

# Economic News

## Floods in Argentina Now Exceed $5 Billion in Damage: Government

Damage from last week's flooding in Argentina has exceeded $5 billion, Agence France-Presse reported Sunday. The death toll has also risen, with 59 people confirmed to have died in the disaster as of Sunday. Government officials said more than 350,000 people have suffered losses in property. Storms last Monday and Tuesday dumped record rainfall in a short time, surprising residents who had little time for preparation. Some 60,000 homes in La Plata, near where the country's largest oil refinery is located, were damaged. A fire at a refinery last week was brought under control but caused significant damage. In honor of the victims, President Cristina Fernández de Kirchner declared a period of three days of national mourning, which was due to end on Sunday.

*More than 350,000 people have suffered property losses, the government said.*

# Political News

## Brazilian Prosecutors Investigating Lula for Alleged Corruption

Prosecutors in Brazil announced Friday that they have opened a corruption investigation of former President Luiz Inácio Lula da Silva in connection with the so-called "mensalão," or "big monthly payment," scheme that has already led to several convictions. Lula has denied any knowledge or involvement in the scheme, but a businessman involved in the scandal told prosecutors last September that Lula was aware of it and received money through it, BBC News reported. The businessman, Marcos Valério, had worked closely with Lula's Workers Party and testified in order to reduce his 40-year prison sentence. Valério was convicted along with 24 others for involvement in the scandal, which involved using public money to pay politicians for their votes. Also convicted last year in the scheme was José Dirceu, who was Lula's chief of staff between 2003 and 2005. Dirceu was sentenced to a prison term of 10 years and 10 months. The announcement Friday by Brazil's Public Ministry that prosecutors would open an investigation into Lula's alleged connection to the scheme came after several months of prosecutors analyzing testimony in the case, *The New York Times* reported. It is believed to mark the first time that Lula has been directly investigated in relation to the scheme.

## Florida Lawmakers Question Pop Stars' Visit to Cuba

Two Florida Republican legislators, Ileana Ros-Lehtinen and Mario Diaz-Balart, have sent a joint letter to the U.S. Treasury Department asking for more information about the visit to Cuba last week of married pop star couple Beyoncé and Jay-Z, *The Guardian* reported Sunday. The letter points out that "tourist activities" are forbidden by the U.S. travel ban and complains that the trip was used by the Castro regime for propaganda purposes, according to the report. "The restrictions on tourism travel are common-sense measures meant to prevent U.S. dollars from supporting a murderous regime that opposes U.S. security interests at every turn and which ruthlessly suppresses the most basic liberties of speech, assembly and belief," the politicians wrote. At an event at the Inter-American Dialogue last Thursday, Cuba's top diplomat in Washington, José R. Cabañas, complained that dissident blogger Yoani Sánchez receives more coverage in the U.S. media

Ros-Lehtinen

*File Photo: U.S. Congress.*

Copyright © 2013, Inter-American Dialogue

than Beyoncé and Jay-Z's visit to the island. "Too much attention has been devoted to this lady, taking a lot of attention from the most important ... news that has been happening these days in regards to Cuba," Cabañas said, Reuters reported. "Including the presence of Beyoncé, the singer, who is today in Havana, enjoying a lot of attention from the public, but it's not covered by the media—incredible." Supporters of the trip say the pop stars' visit should be justified for its cultural exchange value, an approved way for Cubans and Americans to visit each other's countries.

# Company News

## Mexico's Pemex Signs First Long-Term Oil Accord With China

Mexican national oil company **Pemex** on Saturday signed an accord with Chinese oil company **Sinopec** that will expand trade and oil exports to China, EFE reported. The agreement's signing, on the southern Chinese island of Hainan, took place shortly after Mexican President Enrique Peña Nieto met with the new president of China, Xi Jinping, during the Boao Forum. Starting this month, Pemex will export at least 30,000 barrels of oil each month to China under the arrangement for the next two years, *El Financiero* reported. "This represents a milestone in the history of Petróleos Mexicanos, because it is the first long-term contract signed with a Chinese company," said Emilio Lozoya Austin, the CEO of Pemex. The agreement also calls for reciprocal training and technical collaboration. In related news, during a visit to Hong Kong on Friday, Peña Nieto said that his country is looking to penetrate the Chinese market with Mexican manufactured goods, the Associated Press reported. A new **Bank of America** report has found that Mexican labor costs in some areas have fallen nearly 20 percent below those of China, a dramatic reversal from a decade ago, when Mexican labor costs were twice China's. "I am convinced that Mexican products should take advantage of the dynamism of China's markets," Peña Nieto said.

**Featured Q&A**

*Continued from page 1*

of foreign investment into the industry. Curiously, this opportunity arises at a time when Latin America's other major oil-producing nations are sending less favorable signals to foreign investors, so let's see if Mexico can make changes that will whet investors' appetite."

**A Ricardo Falcón, senior research analyst for Latin America energy at IHS CERA:** "The PRI is adding further momentum to Peña Nieto's plans for reforming the fiscal and energy sectors. With the modification of its internal statutes, the ruling party not only shows a knack for pragmatism, but also fully endorses the president's policy agenda. PRI legislators will now be able to vote on initiatives that extend the value-added tax to food and medicines and allow greater private investment in the oil industry. These changes will be critical for the government in the face of rising public spending and lower tax revenues from the continued decline in oil output. Thus, with its platform change, the party sends a positive signal to international markets that it is willing to unlock structural reforms in areas that were previously seen as untouchable. This move is already bearing fruit as confirmed by S&P's recently improved outlook on Mexico's sovereign credit ratings. It also reaffirms Peña Nieto's political capital by strengthening his bargaining position in Congress, where the PRI holds roughly 42 percent of the seats. The likely support of both the Green Party and the pro-market PAN would let the administration push for legal and constitutional amendments that could suffice for a meaningful energy reform package. Still, any such amendments would hardly represent a quick fix or a dramatic improvement to the oil sector's performance. Implementation would take time, and the PRI has made it clear that, by all means, the state will keep control of Mexico's hydrocarbons resources. Although the government may pave the way for more flexible business conditions for private investors, it is yet to define a viable strategy to improve Pemex's investment decision and risk allocation capabilities. The congressional ratification of the National Energy Strategy in late April will be the first real test for the new government's mandate in energy policy."

**A George W. Grayson, professor of government at the College of William and Mary in Virginia:** "While playing their cards close to their vests, President Enrique Peña Nieto and Pemex Director Emilio Lozoya have declared that Pemex will be 'modernized'—probably, with the introduction of foreign and or/private capital in deep offshore drilling that the monopoly has neither the technology nor the equipment to perform. Lozoya has held talks with representatives of Brazil's Petrobras and Norway's Statoil, but domestic corporations may be involved when the new approach crystallizes. In the past, the STPRM oil workers' union fought opening the petroleum sector hammer and tongs. While giving lip-service to the shibboleth '¡El petróleo es nuestro!', union chief and PRI senator Carlos Romero Deschamps, 70, will play ball with the government this year. Otherwise, he would not be flaunting his Midas-like riches in a way that sparked the recent jailing of his friend, the teachers' 'moral leader' Elba Esther Gordillo. In mid-2011, the union borrowed $40 million from Pemex supposedly for 'worker housing.' The Facebook page of Romero Deschamps' daughter Paulina, a modestly paid Pemex employee, revealed that she enjoys $722 a bottle wine, sports $12,000 Hermès handbags, and jets around the world with her English bulldogs Keiko, Boli, and Morgancita. Earlier this year, Romero Deschamps gave his son Juan Carlos a $2 million Ferrari to tool around Miami's palm-shaded avenues. Messianic nationalist Andrés Manuel López Obrador (AMLO) poses the most serious chal-

*Continued on page 4*

Copyright © 2013, Inter-American Dialogue

## Featured Q&A

*Continued from page 3*

lenge to the modernization. He abhors market-oriented policies and is desperate for a cause to launch his 2018 presidential contest. Moreover, he is a past master at mobilizing hot-headed students, rabble-rousing debtors and those who excoriate the running dogs of capitalism. Assuming the necessary legislation is enacted, Peña Nieto will have to deploy the armed forces, the Federal Police and local law-enforcement agencies to prevent the sit-ins, blockades and sabotage that the self-righteous AMLO is certain to unleash."

**John D. Padilla, managing director of IPD Latin America:** "The PRI's vote eliminating the prohibition of private investment in refining, petrochemicals and hydrocarbons transportation is meaningful on a number of fronts. Among other things, the unanimous vote provides momentum for the administration's stated desire to undertake a broad-based energy reform. Although not specifically addressed, it is important to recognize that an energy reform that permits joint ventures between Pemex and other companies in specific upstream projects, including deep-water, did not require changes to the PRI's recently modified basic documents. Energy reform is clearly being pursued via a two-stage approach: restructuring, which is anticipated to be rolled out in early April with the objective of making Pemex competitive; and energy reform, which is expected to be introduced in the fall in an effort to attract foreign capital and know-how. Pemex's restructuring only requires the approval of the company's board. Therefore, explicit negotiations with Congress will not be required, meaning that the political noise will be reduced. Although the administration's strategy appears to be moving in the right direction, the devil will be in the details. It is too early to know what specifically might be included in the proposed energy reform; intentional ambiguity has been the strategy thus far and with good reason given how polemic the topic can easily become in Mexico. But if Pemex's restructuring is announced in early April as anticipated, we may start to get a glimpse of where the administration is headed with its energy reform proposal."

---

*The* Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

**Latin America Advisor**
*is published every business day by the Inter-American Dialogue, Copyright © 2013*

**Erik Brand**
General Manager, Publishing
ebrand@thedialogue.org

**Gene Kuleta**
Editor
gkuleta@thedialogue.org

**Inter-American Dialogue**

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director, Finance & Administration
Mary Ellen Flather, Senior Director of Strategy and Development
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Director, Remittances and Development Program
Tamara Ortega Goodspeed, Senior Associate, Education
Jeffrey Puryear, Vice President, Social Policy

**Latin America Advisor** is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

**Subscription Inquiries** are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.