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FEATURED Q&A

Will Trinidad & Tobago Continue to Attract Investors?

Q Foreign investment in Trinidad and Tobago's oil and gas sector grew from $549 million in 2010 to $2.5 billion in 2012 due partially to reform in the sector's fiscal regime, the country's energy minister said recently. However, a series of oil spills in December brought scrutiny to the sector and increased concerns about its environmental impact. Will foreign investment continue to flow to Trinidad? What is the outlook for the country's oil and gas sector? How are concerns and inquiries into the oil spills likely to play out?

A Jorge R. Piñon, director of the Latin America and Caribbean Program and interim director of the Center for International Energy and Environmental Policy at The University of Texas at Austin: "The recent and unfortunate oil spills experienced in Trinidad and Tobago reflect the importance of the second 'S' which many times we fail to include in the acronym HSSE, for Health, Safety, Security and Environment. Preliminary reports seem to indicate that a series of oil spills in the Gulf of Paria's Pointe-à-Pierre operations could be a result of sabotage. In October 2013, Trinidad and Tobago put into effect a new National Oil Spill Contingency Plan (NOSCP) updating its 36-year-old plan, showing their commitment to HSSE policies, standards and procedures. We do not believe that these incidents will have an impact on T&T's hydrocarbon development efforts. Canada's Fraser Institute's 'Global Petroleum Survey 2013,' an annual survey of petroleum industry executives about barriers to investment in oil and gas development, ranks Trinidad and Tobago as the second most attractive country in which to invest in Latin America and the Caribbean, behind only Chile. If countries want to increase energy development activities, they have to offer fiscal and contractual terms and conditions which offer an acceptable rate of return to investors com-

Continued on page 3

Puerto Rico Debt Downgraded by Third Firm to Junk Status

In the wake of a fresh debt ratings downgrade, Puerto Rico, led by Gov. Alejandro García Padilla, on Tuesday announced it expects to issue new general-obligation bonds "in the near term" to refinance outstanding debt and address the government's increasingly severe liquidity problems. See story on page 2.

File Photo: Government of Puerto Rico.

Inside This Issue

FEATURED Q&A: Will Trinidad & Tobago Continue to Attract Investors? 1

Florida Residents Broadly Favor Changes to U.S. Cuba Policy: Poll 2

Puerto Rico Plans to Offer Bonds in Face of Latest Ratings Downgrade 2

Peru Attracts 3.16 Million Tourists in 2013, Slightly Behind Goal 2

Petrobras Having Trouble Meeting Targets: Odebrecht 3

Venezuela, Argentina Currency Woes Hit P&G Earnings 3

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NEWS BRIEFS

Peru Attracts 3.16 Million Tourists in 2013, Slightly Behind Goal

Peru attracted 3.16 million foreign tourists last year, slightly fewer than the 3.2 million officials had set as a goal, state news agency Andina reported Tuesday. The figure was an increase of 11.2 percent, or about 318,000 people, from the total number of direct foreign tourist arrivals in 2012. Foreign tourists are increasingly coming from nearby Latin American countries, as compared to the more traditional markets of Europe, the U.S. and Asia. Chile was the top source for foreign visitors, followed by Venezuela, Brazil and Ecuador.

Haiti Launching Program to Register Migrants Abroad

Haiti is launching a $2.5 million program to register its migrants who live without documentation abroad, the Associated Press reported Tuesday. The program includes the Dominican Republic, where controversial policies over the citizenship status of tens of thousands of Haitians have led to high-level talks on bilateral relations. [Editor's note: See related Q&A in the Oct. 18 issue of the *Advisor*.]

Mexican Officials Inaugurate First Wind Farm in Jalisco

Mexican officials on Tuesday inaugurated Jalisco state's first wind farm, EFE reported. The facility, which was constructed through investments by **Grupo Dragón** and **Grupo Salinas**, sits at an altitude of about 2,500 meters, making it the highest wind farm of its type in Latin America, according to Mexican Energy Secretary Pedro Joaquín Coldwell. Mexico needs to boost its capacity for electricity generation by just over 80 percent during the next 15 years, said Coldwell.

Political News

Florida Residents Broadly Favor Changes to U.S. Cuba Policy: Poll

A strong majority of Floridians and Latinos favor a more open U.S. policy with Cuba, a new poll commissioned by the Atlantic Council's Adrienne Arsht Latin America Center released Tuesday said. Sixty-seven percent of Floridans and 66 percent of Latinos nationally are in favor of removing all travel prohibitions with Cuba, according to a poll by Paul Maslin and Glen Bolger, which the Arsht Center described as the first-ever comprehensive national poll on the U.S.-Cuba relationship. A majority of Americans from every region and across party lines support normalizing relations with Cuba, according to the poll. Nationwide, 56 percent of respondents favor changing U.S.-Cuba policy, with an increase to 63 percent among Florida adults and 62 percent among Latinos. Sixty-one percent of the American people believe that Cuba should not be considered a state sponsor of terrorism; in Florida, the number rises to 67 percent. Six-in-ten people across the country, including Floridians and Latinos, support the United States appointing a special envoy for Cuba, according to the poll. The survey was conducted in English and Spanish from Jan. 7 to Jan. 22 with a nationwide margin of error of +/- 3.1 percent (in Florida, +/-4.0 percent and Latinos, +/-4.4 percent). Respondents were interviewed on landlines and cell phones. Advocates for keeping the U.S. embargo against Cuba say relaxing restrictions will reward and entrench abuses by the nearly five-decade autocratic regime of the Castro brothers. The U.S. State Department, Amnesty International and Human Rights Watch last month condemned the Cuban government's detentions of dozens of dissidents to keep them away from a Havana summit of hemispheric leaders. An estimated 100 pro-democracy Cuban activists were detained during the two-day Summit of the Community of Latin American and Caribbean States in January, the *Miami Herald* reported.

An estimated 100 pro-democracy Cuban activists were detained during the two-day Summit of the Community of Latin American and Caribbean States in January.

Economic News

Puerto Rico Plans to Offer Bonds in Face of Latest Ratings Downgrade

Puerto Rico's Government Development Bank on Tuesday announced it expects to issue new general-obligation bonds "in the near term" to refinance outstanding debt and address the government's liquidity problems. Bank chairman David Chafey said in a press release that his team has "completed significant measures in the past month to improve our fiscal health" and is "ready to access the market" with a new issuance of bonds. No specific amounts or dates were disclosed in the release, but media reports suggested the total could surpass $3 billion. **Fitch Ratings** on Tuesday joined the other two major credit rating agencies by downgrading Puerto Rico's debt to junk status over concerns that the economy will remain weak, limiting its ability to repay lenders. The downgrade prompted the government to reschedule its quarterly webcast this month. "In order to fully address questions arising from rating agency actions and other recent developments, the Commonwealth's previously announced quarterly webcast has been rescheduled for Feb. 18," the bank said. **Barclays**, **Morgan Stanley** and **RBC Capital Markets** have been selected as joint lead managers for the bond issuance. "Puerto Rico's debt problem threatens

Chafey

File Photo: Government of Puerto Rico.

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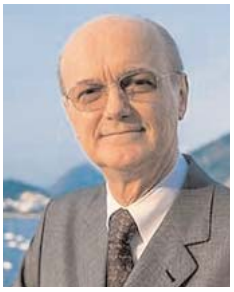
insolvency," Jeffrey Farrow, the former co-chair of President Clinton's Interagency Groups on Puerto Rico and the other U.S. territories, told the *Advisor* in a Q&A last Friday. "Underlying it is years of borrowing to spend in excess of revenues."

Company News

Petrobras Having Trouble Meeting Targets: Odebrecht

Brazilian state oil company **Petrobras** is falling short of meeting its target of doubling production by 2020, according to an executive at Brazilian construction firm **Odebrecht Óleo e Gás**, Bloomberg News reported Tuesday. Petrobras has a "full plate" and could face financial limitations in meeting its goals, Roberto Ramos, head of Odebrecht's oil equipment unit, said last month at an industry event at the Norwegian-Brazilian Chamber of Commerce. "Petrobras is doing what they can to mobilize gear, equipment and capex, and an enormous concentration of FPSOs are coming into production in 2014 and 2015, but is it soon enough?" Ramos said, referring to floating production storage and offloading vessels. "The Petrobras balance sheet could also limit the increase of development speed," he added. Petrobras declined to comment to Bloomberg News. Last week, shares of Petrobras, the world's most indebted oil company, sank to an eight-year low amid mounting refining losses. Since 2011, the Rio de Janeiro-based company's refining division has lost $35 billion. In that time, Brazil's government has been using the company's output to subsidize domestic fuel. However, with an anticipated increase in capacity, Petrobras is expecting to achieve positive cash flow by 2016, the company said in a Feb. 3 statement. Since November, Petrobras has added six new production platforms, but the number of offshore rigs in Brazil in December declined to its lowest level since 2010, according to oil-sector service company **Baker Hughes**.



Ramos

File Photo: Odebrecht.

Venezuela, Argentina Currency Woes Hit P&G Earnings

Cincinnati-based consumer products giant **Procter & Gamble** on Tuesday lowered its guidance for sales and earnings growth due to recent policy announcements by the Venezuelan government that impact foreign exchange rates and "significant exchange rate movements" in Argentina and other developing countries in which it operates. In Venezuela, P&G said it now expects to incur one-time charges in the range of $230 million to $280 million, after taxes, on its local balance sheet in light of new government policies and currency restrictions. In Argentina, P&G added, over the past three weeks the exchange rate of Argentine pesos to U.S. dollars has devalued by some 20 percent, to approximately 8.0 pesos to the dollar. The company said its prior earnings guidance assumed a rate of approximately 6.6 pesos to the dollar. In addition to Venezuela and Argentina, P&G said a weaker Turkish lira, South African rand, Russian ruble, Ukrainian hryvnia, Brazilian real and several other currencies relative to the U.S. dollar would reduce fiscal year 2014 core earnings-per-share growth by approximately one percentage point. Overall, P&G confirmed its outlook for organic sales growth of three to four percent for fiscal year 2014.

Featured Q&A

Continued from page 1

mensurate with their potential and associated technical, political and commercial risks. We believe that T&T's investment models create alignment between the objectives of the host government and foreign investors, while promoting good governance standards and behaviors by reinforcing rule of law, accountability, transparency and integrity."

Ross Lubetkin, Latin America upsteam analyst at Wood Mackenzie: "Over the past decade, Trinidad and Tobago has been faced with steadily declining oil production and a dwindling gas reserves base. Additionally, exploration performance over the past decade paints a grim picture for long-term supply: no single year has delivered commercial reserves greater than production. Recognizing this, the Ministry of Energy has been proactive in increasing investment through two key measures: an increase in exploration licensing and improved fiscal terms. The improved fiscal terms and a pragmatic licensing process have resulted in a significant increase of licensed acreage; almost half of the country's currently licensed offshore acreage has been contracted out since 2011. The result is an increase in investment in the country's upstream sector and more exploration activity to come. To kick things off, BHP Billiton, the most active bidder in the 2012 round, plans to undertake the world's largest and most expensive seismic program offshore Trinidad in 2014. The changes in the fiscal terms, which incentivize more spending both on development and exploration, have been welcomed by the upstream sector. The changes increase companies' capital allowances for tax purposes and allow them to write off more costs in the year incurred. This has been particularly important for some of the smaller companies carrying out development work in mature onshore areas. It also benefits Petrotrin, the state oil company and dominant oil player. The company sits on a significant oil resource base, but has aging infrastructure and is struggling financially and technologically. The December oil spills highlight this, and realistically, the company needs partners. However, it remains to be seen whether the unions in Trinidad would allow such an agreement to take place."

Continued on page 4

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Featured Q&A

Continued from page 3

Anthony T. Bryan, senior fellow at the Institute of International Relations at The University of the West Indies in St. Augustine, Trinidad: "The outlook for Trinidad and Tobago's oil and gas sector is good. Natural gas and oil production increased by 7.6 percent and 1.2 percent respectively in the fourth quarter of 2013 compared with the same period of 2012. In the third quarter of 2013 it had contracted by four percent because of a large coordinated maintenance program conducted across the natural gas value chain. The numbers for the fourth quarter demonstrate a turnaround of the upstream component of the energy sector. T&T is a mature oil producer (commercial production began in 1908). And today it is primarily a natural gas economy. Five years ago, more than 60 percent of U.S. imports of LNG originated in T&T. Today it is less than 20 percent. U.S. natural gas prices are low and the primary markets for T&T LNG are now northwest Europe, Asia and Latin America. The nation has a balanced energy mix of oil and gas. Oil production is a little less than 100,000 barrels of oil per day, while gas is at about 4 billion cubic feet per day or 650,000 barrels of oil equivalent. T&T has always been receptive to FDI. But the bar has been raised in the competition for new investment relative to the fiscal terms and conditions being offered in other locations. In recent bid rounds in T&T, a lot of investor interest was expressed in deep-water acreage because of fiscal changes that made such investment attractive. At present there are eight rigs drilling in local waters compared to one rig in June 2010. But competition for new investment will involve addressing the gas supply and pricing. The recent oil spills have resulted in a blame game between the labor unions, the environmentalists, the national refinery Petrotrin—and suggestions of sabotage from some quarters. Even with an updated National Oil Spill Contingency Plan, the refinery seems to be behind the curve. The formal inquiries are continuing, but the whole episode in unlikely to deter investor confidence."

Wayne Bertrand, distinguished fellow in Petroleum Studies at the University of the West Indies at St. Augustine: "The December 2013 oil spills into the Gulf of Paria resulted from the failure of old infrastructure combined with operator complacency. Initial clean-up is essentially complete except for some areas of mangrove, and monitoring of air, water and seafood continues. It is expected that there will be no lasting impact on the environment and that measures will be put in place to once again focus on proper maintenance, inspection and replacement schedules for old equipment and that standard operating procedures will be reviewed and modified to reflect the age and condition of operating equipment for the protection of health, safety and environment. The lessons learned from this spill will definitely assist in appropriate modifications to the oil spill contingency response plans and procedures. Foreign investment is expected to continue to flow into the country over the next few years if only because commitments have been made and agreements executed for several exploration leases and for some downstream plants. Investment beyond that will depend on the level of success of the initial exploration periods for these leases and whether discoveries are oil or gas. With the continuing boom in shale oil and shale gas in the United States and the expectation that such activity will spread to other countries around the world, new strategies for marketing of any new large discoveries in Trinidad and Tobago in the next few years will have to be devised. Local conversion of gas into more downstream products may become a more intensified focus than at present, but challenges that result from new discoveries are welcome."

The Advisor *welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with questions or comments.*

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