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### FEATURED Q&A

#### Do Mexico's New Energy Sector Laws Meet Expectations?

**Q** Mexican lawmakers on Wednesday gave final approval to secondary legislation needed to complete reform of the country's energy sector, including a hydrocarbons law and bills setting up an electricity market as well administrative and transparency measures for state companies Pemex and CFE. What are the key measures adopted in the reforms, and were there any surprises? Do they go as far as investors hoped?

**A** Ixchel Castro, macro energy analyst at Wood Mackenzie: "The key feature of the reform is providing private investors access to oil, gas and power assets that remained under the exclusive control of the government. The aim is to revitalize the sector and develop Mexico's hydrocarbon potential without being funded by the public budget. More than just breaking the state monopoly in the sector, this reform means the beginning of a new market-oriented rationale. Energy policy will be the framework, but not the only driving force in the sector. The reform has provided elements addressing investors' concerns in terms of flexible contracts, independent regulators and booking of reserves. Markets had an initial positive reaction, but the real assessment will be done during the next two years following three key aspects: Pemex's and CFE's restructuring process; the first oil and gas

licensing round; and the start-up of the wholesale power market. Up until now, the reform has fulfilled the market's expectations, so the next step is providing results. As the reform is implemented, investors will pay special attention to the management of the licensing rounds by the National Hydrocarbons Commission and the involvement of the Finance Ministry in the supervision of investments. For the power sector, the consolidation of the National Center of Power Control as an independent dispatcher will

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#### Bolivia's YPFB Takes Control of Transierra in \$133 Mn Deal

Bolivian President Evo Morales (center) on Tuesday attended a ceremony where state oil company YPFB took majority control of natural gas pipeline operator Transierra. YPFB paid Petrobras and Total \$133 million for their 55.5 percent stake in the company. See story on page 2.

*Photo: Bolivian Government.*

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## ENERGY SECTOR BRIEFS

**Consortium to Invest \$500 Mn Over Two Years in Peru's Camisea Field**

The Camisea Consortium, led by Argentina's **Pluspetrol**, said Monday that it will invest \$500 million in exploring and developing Peru's Camisea gas field over the next two years, Reuters reported. The field contains block 88 and 56, which have proven reserves of 13.1 trillion cubic feet of natural gas. The consortium, which also includes U.S.-based **Hunt Oil**, South Korea's **SK**, Algeria's **Sonatrach** and Argentina's **Tecpetrol**, said the money will go to developing block 88.

**Bolivia Looks To Increase Renewable Power to 163 MW Over Next Decade**

Bolivia's energy ministry is developing a plan that will focus on increasing the use of renewable sources for power generation and expects to have at least 163 megawatts of renewable capacity within 10 years, Energy Minister Juan José Sosa said in a radio interview Sunday, according to Bloomberg News. Bolivia's first wind project, the 3-megawatt Qollpana project, began operating in January, and the government is planning to approve a 21-megawatt expansion in September.

**IDB Approves \$65.9 Mn in Loans for Uruguay's First Utility-Scale PV Plant**

The Inter-American Development Bank said July 31 that it has approved \$65.9 million in loans to finance the La Jacinta solar project being developed near the city of Salto in northwest Uruguay by **Fotowatio Renewable Ventures Inc.** The bank will provide \$40.9 million from its own capital and \$25 million from the IDB-administered Canada Climate Fund. Under the deal, the 64.8-megawatt project, Uruguay's first utility-scale solar pv plant, must be completed within two years.

**Oil & Gas News****Mexico's Congress Gives Final Approval to Energy Reforms**

Mexico's Senate on Wednesday gave final congressional approval to a landmark overhaul of the country's energy industry, sending the measure to President Enrique Peña Nieto, who said he will sign it into law next week. The energy reform will end a seven-decade monopoly of the country's oil sector by state oil company **Pemex** and

“We will take better and more sustainable advantage of our energy resources.”

— *Enrique Peña Nieto*

will greatly expand the involvement of private and foreign companies in Mexico's oil and gas sector. "Today we took a big step toward the future for Mexicans," Peña Nieto said in a posting on Twitter, the Associated Press reported. "We will take better and more sustainable advantage of our energy resources." Peña Nieto has made the energy-sector overhaul one of the main items on his agenda, which has also included banking, education and telecommunications reforms. But some see the energy sector reforms as the most critical as they are designed to increase the country's flagging oil production. "Of all the reforms that have been done up to now, this is without doubt, the most important," Carlos Capistrani, chief economist in Mexico for **Bank of America Merrill Lynch**, told the AP. The country's oil production peaked in 2004 at 3.4 million barrels per day. Since then, it has steadily dropped to the current level of 2.5 million barrels per day. The reform will bring in private oil companies that have the expertise lacking at Pemex to increase output, including through exploitation of Mexico's shale and deep-water reserves, the proponents of the reforms have said. With the overhaul, Mexico's daily production will rise to 3 million barrels daily by 2018 and 3.5 million by 2025, the government predicts. Lawmakers opposed to the energy

reforms on Wednesday brought to the Senate floor a life-sized picture of late President Lázaro Cárdenas, who nationalized the country's oil reserves and expropriated foreign oil companies' equipment in 1938. Leftist legislators contend the reforms amount to a privatization of the country's oil industry and will saddle taxpayers with Pemex's legacy of mismanagement and corruption. Among the most controversial parts reforms is a plan to transfer approximately a third of Pemex's pension debts to the federal government.

**YPFB Buys Petrobras, Total Stakes in Pipeline Operator for \$133 Million**

Bolivian state-owned oil company **YPFB** paid \$133 million to Brazil's **Petrobras** and France's **Total** for their shares of natural gas pipeline operator **Transierra** and now holds a 55.5 percent stake in the company, EFE reported Wednesday. **YPFB-Andina**, a joint venture between YPFB and Spain's **Repsol**, holds the remaining shares of Transierra, which will be renamed YPFB-Transierra. The company operates the 423-kilometer (270-mile) Gasyrg pipeline, which carries natural gas from fields in the state of Tarija to the export hub of Rio Grande in Santa Cruz province. The deal was negotiated following a law passed in Bolivia last December that required YPFB to have a majority stake in Transierra. It now joins **YPFB Transporte**, **Gas TransBoliviano** and **YPFB Logística** in forming a state-run natural gas transport system. YPFB CEO Carlos Villegas said the deal means that Bolivia now has full control over the domestic transport of hydrocarbons through pipeline. For Petrobras, which sold its 44.5 percent stake in Transierra for \$106.7 million, the deal continues a line of assets sales being used to generate cash to invest in domestic projects, Platts reported.

**Maduro Says Venezuela Will Open Debate On Increase of Gasoline Price**

Venezuela will hold a national debate over a proposed increase to the country's gasoline prices, President Nicolás Maduro announced July 31 at the close of the third national congress of the ruling United Socialist Party of Venezuela (PSUV), *El*

*Tiempo* reported. Maduro said his government will "open the debate" over the proposed rise in gasoline prices, which are currently the lowest in the world and whose subsidies cost the government more than \$12 billion annually. "I propose that all the additional money which will be collected must go to a social fund to fulfill the country's needs," Maduro said, according to teleSUR. The fund would be equally distributed across five areas, university scholarships, assistance for the elderly, security programs, social housing and roads and



Maduro

File Photo: Venezuelan Government.

services, he added. Maduro emphasized that the proposal was one of many that came from party delegates with the intention of increasing government resources to implement aspects of its socialist agenda. However, increasing fuel prices has been one of the main measures proposed by analysts across the political spectrum to address the country's economic imbalances, since the price subsidy accounts for four to five percent of GDP, according to *El Tiempo*. Venezuela has subsidized gasoline for the last 17 years, and price increases have been a politically sensitive topic in the country since a 1989 plan by then-President Carlos Andrés Pérez that included raising gasoline prices led to the "Caracazo" social upheaval. Maduro said that 70 percent of the population is open to supporting an gasoline price increase, according to various polls and studies.

### ENAP, ConocoPhillips to Collaborate on Unconventional Exploration

Chile's state-owned **Empresa Nacional del Petróleo** and Houston-based **ConocoPhillips** on Tuesday agreed to study the unconventional oil and gas potential of the Magallanes basin in southern Chile, Bloomberg News reported. The two companies will jointly carry out geological, geophysical and engineering studies of Magallanes, and Conoco will offer technical support to determine which areas to explore for unconventional

### Featured Q&A

*Continued from page 1*

be key to ensuring new participants of the neutrality of the wholesale market."

**A John D. Padilla, managing director of IPD Latin America:**

"Key modifications to the secondary laws include: 1) 25 percent national content will be required in 2015, increasing to 35 percent by 2025 (excluding deepwater); 2) landowners will be entitled to benefit from production, much like those with mineral rights in the United States; 3) regulators will be further strengthened and more autonomous; 4) more money will flow directly to oil & gas states and municipalities with funds established for infrastructure needs; 5) generalized subsidies will be replaced by more focused ones; 6) gasoline imports and gas stations are likely to open up to competition sooner than originally proposed; and 7) the government will assume a portion of pension liabilities if the Pemex union agrees to move to a defined contribution system with auditing oversight. All of these changes are positive, or, at least, not deal breakers. The PRI and PAN demonstrated a healthy give-and-take to achieve agreement and pass these laws. Their ability to reach across the aisle stands as testament to the parties' commitment to achieving reform. The secondary legislation provides important details on the institutional framework and other issues that will matter to the private sector. Much of it looks very promising. But many of the details that will determine whether companies come in droves or dribbles will depend on the specifics to be contained in each contract to be bid out. Additionally, the government's ability to overhaul, staff up (not just bodies but the requisite skill sets) and implement the institutional framework necessary to deal with bids and multiparty dynamics will be key to coping with the challenges ahead. Mexico has achieved another major, historic milestone, which should be applauded. But more work lies ahead."

**A David Shields, independent energy consultant based in Mexico City and editor of *Energía a Debate*:**

"Constitutional energy reforms and enabling laws have now been approved in Mexico. The magic remains intact. The expectation is that massive investments will flow into a real, open energy market full of opportunities. But the reality will be much more complex, as is the dense,

“Peña Nieto has succeeded in achieving the most progressive economic reforms for Mexico since the adoption of NAFTA.”

— James R. Jones

often inscrutable bunch of laws that have wound their way through Congress. These laws still have to be regulated (more complexity) and turned into major, feasible projects. For now, they bring up many more questions than answers. Since they establish tax rules aimed at conventional oil, can unconventional make headway in Mexico? Can fracking thrive, if legal and regulatory conditions are so different from those in the United States? Can deepwater drilling move forward, if the law says companies' liabilities could be 'unlimited'? Can Pemex be a productive, efficient, competitive company if it remains 100 percent state-owned and under political and bureaucratic control? Why do the laws give the president total control over appointments in Pemex, CFE and the regulators? There are major concerns about transparency all through the laws. How will Pemex pick its partners? Can this be totally discretionary in a state-owned firm? To what degree will the regulator intervene—and if so, why should a regulator pick partners for a company?

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## Advisor Q&A

### *What Is the Next Chapter in Argentina's Debt Saga?*

**Q** Argentina defaulted on a portion of its restructured debt after failing to reach an agreement by July 30 on paying back holdout bondholders. How will the default affect Argentina's economy and its ability to eventually return to international credit markets? How much of an impact is the situation having outside of Argentina? What will the political effects of the situation be in Argentina?

**A** Miguel Kiguel, executive director of Econviews in Buenos Aires: "In the end there was a default, though not a standard one. Argentina is solvent, and it has shown ability and willingness to pay. However, the peculiar ruling of Judge Griesa on the pari passu clause combined with the inflexibility shown so far by the vulture funds, the government and the judge are likely to make the end of this debt saga unpredictable. The government says it is willing to negotiate, though it cannot do so until January because it argues that a payment to the holdouts implies better financial terms than those offered in previous exchanges, which means that it

might need to extend them to all the bondholders (the RUFO clause). What are the possible outcomes? One possibility is that Argentina gets a stay from the judge and is allowed to continue to service the debt until January, when the RUFO expires. Then the government could negotiate a deal with the holdouts and leave the default behind. A variation on this scenario is one in which Argentina remains in default until January, there is no stay but there is no acceleration of the bonds, which means that nobody asks for a restructuring of the debt during the period. The most worrisome scenario is one in which the bondholders of a series (most likely of Par bonds) accelerate the bonds, an action that could lead to a new restructuring of at least part of the debt—a new nightmare. To make things more complicated, there is no certainty that the government will be willing to pay the \$1.6 billion in January to comply with the court's ruling. In sum, this is a real thriller with an open end."

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*Editor's note: More commentary on this topic appears in the Aug. 7 issue of the Dialogue's daily Advisor.*

resources. ENAP CEO Marcelo Tokman and David Jones, ConocoPhillips' vice president of exploration for South America, signed the agreement, which comes on the heels of a visit to the United States by Chilean Energy Minister Máximo Pacheco and industry executives, Terra reported. ENAP hopes to boost output in Magallanes as Chile now imports more than 90 percent of fossil fuels consumed in the country. In 2013, the company spent more than \$100 million on oil and gas exploration, the most in 15 years, and used new drilling technology to tap tight-gas deposits, according to Bloomberg News. Tokman said the agreement with the third-largest U.S. energy company reinforces ENAP's current initiatives to strengthen unconventional oil and gas exploration and exploitation in the region. "Our commitment with Magallanes is to assure the supply of gas in the long-term," he said, according to Terra.

### Venezuela Confirms it's Considering Sale of Citgo

Venezuelan Oil Minister Rafael Ramírez on Tuesday confirmed the country's government is interested in selling its U.S.-based refining and distribution subsidiary, **Citgo Petroleum Corp.**, but only if the government is happy with the price, the Associated Press reported. It was reported last week that Citgo's bond prospectus signaled that Venezuela's state-run **PDVSA** was interested in selling the unit. Analysts said the interest in the sale reflects Venezuela's urgent need for cash.

## Power Sector News

### AES Corp. to Invest More Than \$1 Billion in Mexico

Power company **AES Corp.** will invest more than \$1 billion in Mexico in coming years to double its capacity there, the head of the U.S.-based company's Mexican unit said, Reuters reported Aug. 1. The company plans to take advantage of reforms in Mexico's energy sector and invest \$1 billion over the next three to five years to double its current capacity in the country, Juan Ignacio Rubiolo told Reuters at a

trade mission last week. Mexico is in the final stages of opening the country's power sector, which will end the monopoly held by state utility **CFE**. AES currently has three power plants with a total capacity of

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*AES plans to take advantage of reforms in Mexico's energy sector.*

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1,050 megawatts in Mexico. "We have a target of doubling the capacity we have in Mexico," Rubiolo said. He added that the company's focus is on natural gas-fired plants, and that the rate of growth in generating capacity after the reforms will

depend on natural gas access. "We would like to be more comfortable with how they're going to allow private investors to get access to gas and pipeline capacity," he said. AES is also interested in entering the newly-created wholesale market in the country and is following changes that will end the wholesale monopoly of **CFE** and create an independent system operator. "That's one of the major changes of the reform," said Rubiolo. "It's definitely one of our main targets," he said.

### Brazil to Announce Local-Content Laws for Solar Project Developers

Brazilian development bank **BNDES** will release the details of local-content laws and funding details for solar projects in

mid-August, Antonio Carlos Tovar, BNDES' head of renewable energy development, told Bloomberg News on July 29. Local-content laws will increase progressively, and after 2020, local-content rules will require developers to use photovoltaic cells produced in Brazil to receive low-cost financing. In a first phase, which will run through 2017, developers will have to use solar panels with frames and some electronic parts produced locally, and then from 2018 to 2020, with more parts manufactured in Brazil. Pedro Vaquer, director of Brazilian solar developer **Solatio Energia**, said panels account for about 40 percent of the investment in a solar farm. Brazil currently produces less than 1 percent of its energy from solar plants, and has almost no pv production. The country used similar local-content rules to spur the growth of the domestic wind industry.

## Political News

### Abe, Rousseff Announce \$700 Mn in Japanese Loans for Brazil

Japanese Prime Minister Shinzo Abe on July 31 wrapped up a nine-day tour of Latin America in Brazil by announcing \$700 million in Japanese loans to the South American country, the Associated Press reported. Abe and Brazilian



Rousseff

File Photo: Brazilian Government.

Abe, adding that the country has significant potential for the production of oil, construction of new infrastructure and a domestic market of some 200 million people. "All this has reignited the interest of Japanese companies," he said. The two leaders also discussed "themes central to the international stage," said Rousseff. "We

President Dilma Rousseff said Japan will extend \$500 million in loans for the building of eight ship hulls for offshore oil drilling and \$200 million in loans for corn and soybean production. Brazil "presents great opportunities for investment," said

renewed our expectations that the next G20 summit in Australia should strengthen the role of this group in the coordination of the world economies to promote the resumption of economic development," said the Brazilian president. During his trip, Abe also told Brazilian business leaders that Japan's economy has emerged from a 15-year deflation cycle, presenting new opportunities for cooperation, *The Japan Times* reported. Among the Brazilian projects that are especially promising is a plan for high-speed rail service between São Paulo and Rio de Janeiro, said Abe and Rousseff. Japan is Brazil's sixth-largest trading partner. The countries had \$15.7 billion in two-way trade last year.

## Economic News

### Costa Rica to Delay Tax Reform Plan Until 2017

Costa Rica will delay a plan to raise taxes for a year, until 2017, as President Luis Guillermo Solís tries to gain support for a package of measures to close a widening budget gap, Bloomberg News reported Wednesday, citing the head of the congressional Finance Committee. Solís had promised not to raise taxes until 2016. Reforms that would change the sales tax into a value-added tax and also rework the income tax scale could see debate in 2016, but would not be implemented until 2017, said ruling-party lawmaker Ottón Solís, who is not related to the president. Costa Rica's economic outlook dimmed after **Intel** and **Bank of America** announced in April, just days after Solís was elected president, that they were cutting some 3,000 jobs in the Central American country. Intel accounted for approximately 21 percent of Costa Rica's exports of goods, or 14 percent of the country's total exports, Bloomberg News reported, citing the Costa Rican investment promotion agency, CINDE. Last month, the central bank lowered its forecast for the country's GDP growth this year to 3.6 percent from 3.8 percent, with growth slowing further next year, to 3.4 percent. In an effort to curb spending, the government has announced measures including a freeze on public salaries and cuts in travel budgets.

## POLITICAL & ECONOMIC BRIEFS

### Colombia's Santos to Begin Second Term Thursday

Colombian President Juan Manuel Santos is to be sworn in Thursday for his second term. Delegations from 73 countries have arrived in Colombia for the ceremony, BBC News reported. Santos, who has put peace talks with the FARC rebels at the top of his agenda, was re-elected in June. The next round of peace talks is scheduled to begin in Havana on Aug. 17.

### Air Canada May Consider Resuming Service to Venezuela

**Air Canada** on Monday denied a report published in Venezuela that said the company had told the government it is resuming flights to the country, which were suspended in March, but the airline said it would consider resuming service if outstanding issues, such as the repatriation of funds, are addressed, spokeswoman Isabelle Arthur said in an e-mail, the *Toronto Star* reported. The International Air Transport Association has estimated that Venezuela is holding \$1.4 billion of airline revenue in violation of international treaties.

### Brazil's Rousseff Leads in Fundraising Ahead of Election

Brazilian President Dilma Rousseff is outpacing her rival, Aécio Neves, in fundraising less than two months ahead of the country's presidential election, Bloomberg News reported Wednesday. For the year through July, Rousseff's campaign raised 9.64 million reais (\$4.2 million), as compared to Neves' 8.11 million reais, according to information released by Brazil's electoral court. Eduardo Campos, a former governor of Pernambuco state who is running in third place, raised 4.07 million reais in the same period.

**Featured Q&A***Continued from page 3*

Will there be no controls (and thus no accountability) over Pemex 'special purpose' affiliate companies? Ultimately, we must ask: can this reform be successful? Probably yes, to the degree that Mexicans—and investors—work hard on it over the next 10 to 20 years."

**A** James R. Jones, member of the *Energy Advisor* board and co-chair of Manatt Jones Global Strategies: "With passage of the implementing legislation to give form and substance to the historic energy constitutional reforms, President Peña Nieto has succeeded in achieving the most progressive economic reforms for Mexico since the adoption of NAFTA. Given the political difficulty of opening up Mexico's hydrocarbons sector to global competition, the reforms are remarkable. That is not to say that economic rewards will flow immediately. Further fine tuning through regulations and legislation will undoubtedly be needed. But the totality of all of the reforms tells the world that Mexico is leaving behind old myths and moving ahead to be a global economic competitor. The reforms invite private investors to develop the declining oil and gas reserves along with unshackling Pemex to be run as a real energy company. It establishes a framework for leases, profit and production sharing to entice the most modern producers. It creates ANSIPA, which is a one-stop shop for environmental matters related to hydrocarbons activities. It sets up rules for land-use rights that balance the interests of landowners and producers so that both can benefit and designates the National Hydrocarbons Commission to referee. It will encourage fracking and the development of shale oil and gas by taking away jurisdiction over extraction methods from the states. It sets lofty goals for clean energy and encourages renewable energy production by such things as requiring electricity generation and supply companies to purchase Clean Energy Certificates. Some things remain to be done, probably in the regular fall session of Congress beginning in

September. The environmental legislation will address the regulation of water use for fracking, for example. But Pemex, CFE, and Mexican and foreign investors will find real opportunities in the energy sector this time. The winners will be Mexico and North America."

**A** Carlos Petersen, associate at the Eurasia Group's Latin America practice: "Two main takeaways can be drawn from the energy-sector reform process that is about to conclude. First, the market-friendliness promised throughout the reform process remained, and, second, the government still has questions to answer and results to deliver in order to fulfil the expectations. Regarding the first point, from the legal perspective the supporters of the reform should not feel disappointed. The Mexican energy reform has a very market-friendly sentiment, embedded in the constitutional amendments made last December and embraced by the secondary legislations recently approved by Congress. The secondary laws not only defined the rules of how the hydrocarbon and power sectors will be opened to private participation, but also granted Pemex and CFE more autonomy and healthier finances, which should be a positive sign to firms that want to partner with them and for Mexicans that will benefit from more competitive and efficient state-owned firms. On the second point, the government still has to follow through with the sector transformation. The implementation process will face many challenges in the short and long term. On the one hand, the complexity in the adaptation and creation of new rules and institutions, and, on the other, solving and navigating structural issues that Mexico has, like corruption, political polarization and insecurity, will be crucial. These key uncertainties will be relevant indicators to follow in order to anticipate if the reform's promises of boosting production, attracting investment and giving new opportunities of growth, and improving conditions for all Mexicans, will be fulfilled."

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