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FEATURED Q&A

Is Natural Gas Integration Gaining Traction in Central America?

Q Mexico and Guatemala are moving forward with plans to build a cross-border pipeline, which would carry natural gas from Mexico in an effort to reduce energy costs in the Central American nation. Other proposals have called for more pipelines to bring natural gas to Central American nations, and some countries in the region are studying the feasibility of LNG import terminals. What is the outlook for natural gas use in Central America? What are the benefits and drawbacks to proposals to increase natural gas pipelines in the region?

A Carlos Boj, energy consultant at the Central American Bank for Economic Integration: "Central America has begun to take its first big steps in the area of natural gas for power generation; Mexico and Guatemala are promoting regional interest in the construction of a pipeline that would inject natural gas to Guatemala and to the entire region in the future, for which they are now working on the first report to determine regional demand and each country's interest in receiving the fuel or electricity based on natural gas. The outlook for the use of this energy seems very promising, since at the beginning of March, Honduras publicly asked the Guatemalan government to join the agreement it has with Mexico to supply natural gas. Still, the supply offer by Mexico is not the only one, as different offers to supply the region from South America and companies with North American capital exist, whether by a pipeline from the south or supplying small port terminals in each country. In the middle of the expectations and furor that the use of natural gas for power generation has caused, it is worth mentioning that the region has certain disadvantages. We can mention issues such as not having rules and regulations for this energy source because the region has never used natural gas and the lack of well-trained and specialized human resources that will be required. At the same time, we can men-

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Mexican Authorities Capture Leader of Juárez Drug Cartel

Mexican authorities announced Sunday that they had captured Jesús Salas Aguayo, the leader of the country's violent Juárez drug cartel. Salas Aguayo was detained in Villa Ahumada in Chihuahua state. See story on page 2.

Photo: Mexican Attorney General's Office.

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NEWS BRIEFS

VP of Brazil's Camargo Corrêa Admits Paying Bribes

A vice president of Brazilian construction company **Camargo Corrêa**, Eduardo Hermalino Leite, told prosecutors that he paid $36 million in bribes to executives of state oil company **Petrobras**, local press reported, citing prosecutors' documents, MercoPress reported. Leite said he bribed two Petrobras officials between 2007 and 2012 and inflated contracts to hide the payments. He was arrested in November in connection with the Petrobras corruption scandal and cut a deal with prosecutors to reduce possible prison time.

Keiko Fujimori Leads Ahead of Peru's Presidential Election

Keiko Fujimori, the daughter of jailed former Peruvian President Alberto Fujimori, is in the lead ahead of Peru's 2016 presidential election, according to a poll released Sunday by **Ipsos Peru** and published in *El Comercio*. Fujimori received 32 percent support in the poll, while economist Pedro Pablo Kuczynski received 14 percent and former President Alan García received 11 percent support.

Nicaragua Downplays Costa Rica's Claims of River Damage

At the conclusion of a first round of hearings at the International Court of Justice on Friday, Nicaragua's legal team downplayed claims by Costa Rica that dredging carried out on the San Juan River had caused environmental damage in a disputed border area, *The Tico Times* reported. Nicaraguan attorney Paul Reichler said that the government ordered dredging to "help preserve the environmental health of San Juan and restore conditions required for navigation."

Political News

Mexican Authorities Capture Juárez Cartel Leader

Authorities in Mexico announced Sunday that they had captured Jesús Salas Aguayo, the leader of the Juárez drug cartel. Salas Aguayo took over the cartel after authorities detained cartel leader Vicente Carrillo last October and his successor, David Aaron Espinaza Haro, in January, *The New York Times* reported. Federal troops arrested Salas Aguayo on Friday in the town on Villa Ahumada in Chihuahua state. Salas Aguayo, whose nickname is "El Chuyin," supplied the explosives for a July 2010 car bomb attack that killed two police officers, a paramedic and a doctor, authorities alleged, Reuters reported. U.S. prosecutors also have accused Salas Aguayo of drug trafficking charges as well as involvement in the murder of José Daniel González, a witness who was killed in El Paso, Tex., in 2009. Also on Friday, Mexican security forces captured José Tiburcio Hernández Fuentes, the leader of the Gulf drug cartel, in Reynosa, *The New York Times* reported. Hernández's arrest sparked hours of fighting in the streets of the northern city as some 60 gunmen affiliated with Hernández seized buses and set them on fire in an unsuccessful attempt to block his transfer to Mexico City, Security Commissioner Monte Alejandro Rubido said Saturday, the newspaper reported. Mexican President Enrique Peña Nieto has continued to target drug kingpins as did his predecessor, Felipe Calderón. Although Mexico's homicide rate has fallen under Peña Nieto and several cartel leaders have been killed or captured, some parts of Mexico remain wracked by violence, Reuters reported.

Peña Nieto

File Photo: Mexican Government.

Economic News

Chilean Finance Minister Eyes Continuation of Stimulus Measures

Chilean Finance Minister Alberto Arenas on Sunday said the government could extend this year's fiscal stimulus to future years, but added it remains committed to balancing the structural budget by 2018, Bloomberg News reported. "A debate on counter-cyclical fiscal policy for more time in Chile is a debate that is welcome, and we will be making an evaluation," the

Featured Q&A

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tion advantages such as diversification of the countries' energy matrixes and environmental and economic benefits, which are derived from reduction in the region's expensive oil imports and fluctuations in world prices of the same."

Jed Bailey, managing partner at Energy Narrative: "Central America and the Caribbean are among the few regions of the world without access to natural gas, although they are surrounded by some of the largest gas reserves on the planet. Bringing natural gas to the region could reduce electricity prices by replacing higher cost liquid fuels, such as diesel and fuel oil, for electricity generation. In a 2013 pre-feasibility study of the potential for natural gas in Central America (sponsored by the Inter-American Development Bank), our company estimated that electricity prices could be reduced by as much as 30 percent. Although lower oil prices have reduced the cost savings from switching to natural gas, many projects, especially pipeline imports from Mexico, are still viable. The main challenge to bringing natural gas to Central America is the small size of each market. Smaller markets have higher per-unit costs because there is less volume to cover the cost of the infrastructure required to import natural gas. We

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minister said in an interview with the news service. Chile is planning to raise fiscal investment by 27.5 percent this year as the country's economy grows at its slowest pace since 2009. Gross domestic product expanded 1.8 percent in the fourth quarter year-on-year after growing only 1 percent in the previous three-month period. Weak growth has raised concerns about the ability of President Michelle Bachelet's government to finance its spending commitments and fulfill its pledge to balance the budget by 2018. The government recently pledged $1.5 billion to rebuild parts of northern Chile affected by severe flooding, and thousands of students last week protested to demand the government make good on its promise to provide free higher education for all. Arenas said, however, that government revenue is rising after last year's tax reform and "there is no relevant information as of today that makes us think that in the budget of 2018" there wouldn't be a structural balance of zero. At the end of 2014, Chile had a structural deficit, which takes into account cyclical swings in commodity prices and economic growth, of 0.5 percent of GDP and an overall shortfall of 1.6 percent of GDP.

Company News

Sumitomo Mitsui Acquiring Stake in Colombia's FDN

Japan's **Sumitomo Mitsui Banking Corp.** announced Monday that it will acquire an 8.84 percent stake in Colombia's Financiera de Desarrollo Nacional, the *Japan Times* reported. The Japanese bank signed a contract for the purchase of the stake in the development bank with the International Finance Corp., the newspaper reported. Sumitomo made the purchase in an effort to strengthen its project financing in Colombia and also to provide financing for infrastructure development there. The Japanese bank also will provide an executive to be a full-time member of FDN's board, according to the newspaper. Colombia's government is planning large infrastructure projects such as the construction of a countrywide network of roads.

Capitol Hill Watch

A Look at U.S. Congressional Activity on Latin America

House Holds Hearing on Reauthorization of Ex-Im Bank

The House Financial Services Committee held a hearing April 15 about reauthorizing the Export-Import Bank, the official export credit agency of the United States. The bank will shut down on June 30 unless Congress renews its charter, *The Hill* reported. Lawmakers temporarily extended the charter late last year. Committee Chairman Jeb Hensarling (R-Tex.) has been a fierce critic of the bank, arguing that it is an example of crony capitalism, and it is not clear if he will move a bill through the panel to reauthorize the bank. Supporters argue that the bank increases U.S. trade by financing projects that stimulate exports and jobs. Among those testifying were Ex-Im Chairman Fred Hochberg as well as Michael McCarthy, the bank's acting inspector general. Lawmakers asked the Ex-Im officials about corruption issues following a recent U.S. Department of Justice indictment of a former loan officer for bribery, according to Reuters. Hochberg responded that the lender is improving transparency and reducing risks. Some lawmakers also questioned the bank's mission, saying it doesn't help small businesses, while bank officials said it creates a level playing field with Chinese and European countries that provide support for their companies. Bank supporter Rep. Stephen Fincher (R-Tenn.) said Wednesday that he feels "really good about authorization at this point" after conversations with Hensarling. "[Hensarling] continues to have some reservations about reauthorization, but I've had some positive interactions with him here of late," Fincher said. [Editor's note: See related Q&A in the July 21 issue of the *Advisor*.]

Hensarling

File Photo: U.S. House of Representatives.

Cuba Human Rights Bill Introduced in the House

A bill introduced in the House of Representatives on April 15 would condition any further easing of U.S. sanctions on Cuba on an improvement in the nation's human rights record, the *Miami Herald* reported. The Cuban Human Rights Act of 2015, introduced by Rep. Chris Smith (R-N.J.), chair of the global human rights subcommittee, calls for the United States to oppose human rights violations in Cuba and not adjust sanctions, the embargo or federal laws related to Cuba if human rights violations continue. Sanctions should not be adjusted until all political and religious prisoners are released, freedom of press, speech and assembly are respected, and there is progress on reversing laws that criminalize peaceful dissent, according to the bill. It also calls for an annual report on the state of human rights in Cuba to be submitted by the Secretary of State and would maintain sanctions until U.S. fugitives from justice are returned. The bill's introduction came a day after President Barack Obama moved to remove Cuba from the state sponsors of terrorism list. After 45 days, if not blocked by Congress, Cuba would be removed from the list, and some restrictions on exports and financial transactions with the island would be eased. Obama could veto any joint resolution issued by Congress. The bill, seen as a rebuke of Obama's changes to U.S. policy toward Cuba, was cosponsored by Florida Republican Representatives Ileana Ros-Lehtinen, Mario Diaz-Balart and Carlos Curbelo.

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Featured Q&A

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estimated that even if all current oil-fired electricity generation plants and all future expansion needs were fueled with natural gas, the total consumption of the entire region would be well below 1 billion cubic feet per day for many years to come. This highlights the importance of the countries in Central America collaborating as a region in order to improve their economies of scale. Much work has been done to integrate the region's electric power markets, but more is needed to take full advantage of the introduction of natural gas."

> "Our company estimatedthat electricity prices could be reduced by as much as 30 percent."
>
> — *Jed Bailey*

Jorge Asturias, director of studies and projects at the Latin American Energy Organization (OLADE): "There has been talk of introducing natural gas in Central America in studies done since the 1990s, all of which confirm it is an energy alternative for the region. The issues to consider are: Where would it come from? At what price? And how would it get to Central America? OLADE's 2014 Energy Statistics report found that 43 percent of the world's proven natural gas resources are located in the Middle East, 29 percent in former Soviet Union countries and only 4 percent in Latin America and the Caribbean. The United States is developing liquefaction projects that position it as an important exporter. The largest proven reserves in LAC are concentrated in a few countries, and after covering internal demand, the region could only supply 17,215 thousand cubic meters annually. So the supply would have to come from the Middle East or the United States, which generally has the world's lowest LNG prices. Natural gas could get to Central America via pipelines or regasification plants. Studies have suggested the following pipeline options: a Colombia-Panama pipeline that would connect to the Venezuela-Colombia pipeline and a pipeline between Mexico and Guatemala to connect to the ones between Mexico and the United States. In the case of regasification plants, installing one in El Salvador and another in Costa Rica has been considered. Guatemala has already awarded a contract to a company for the supply of natural gas-based power, a plant will be installed in Mexico, and El Salvador is in the process of awarding a contract. Determining the best option to supply Central America (whether pipelines or regasification) requires considering the following: 1) The region does not yet have the capacity (storage or distribution infrastructure), and the legislation and regulations being worked on should consider possible harmonization from the start. 2) Construction of pipelines requires large investments that Central American governments cannot cover alone, so public-private alliances should be considered. 3) The integrated market and electricity generation should be kept in mind to guarantee profitability of constructing pipelines. 4) Many Central American countries have rights of way in the area of railway lines still available, which could be an alternative to consider for the pipeline construction cost."

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

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