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## FEATURED Q&amp;A

# Can Brazil Follow Through on Energy Commitments?



Rousseff announced in August that Brazil would work on energy generation and transmission projects, though some are skeptical, given the economic environment. // File Photo: Érico Júnior Wouters.

**Q** **Brazilian President Dilma Rousseff on Aug. 11 announced that the government plans to sign contracts worth 186 billion reais (\$53 billion) for energy generation and transmission projects over the next three years, with a focus on producing power from renewable sources and reducing electricity costs. Will the government be able to follow through with the investment program despite a challenging macroeconomic climate, and what would it mean for the nation's power sector? Will the corruption scandal at state oil company Petrobras, which recently ensnared two executives at state utility Eletrobras, have any negative spillover effects in the power sector?**

**A** **Pietro Erber, director of the National Institute of Energy Efficiency (INEE):** "The growth of the economy and of the demand for electricity, as expected by the government, justifies that investment of \$53 billion. However, its feasibility in the next three years depends on the improvement of Brazil's fiscal and financial situation. Under present conditions, unless the private sector equity share in that investment is higher than in recent years, such a program will hardly be feasible. To secure more equity, return on investment must be reliable and attractive. On the other hand, high return on equity and more commercial bank loans, to compensate for reduction of BNDES' financing share, tend to increase energy costs. Renewables are environmentally desirable but are capital intensive and do not necessarily provide particularly low-cost energy. The majority of these sources,

Continued on page 3

## TOP NEWS

## OIL &amp; GAS

## Mexico to Set Minimum Bids for Oil Auction

The Mexican Finance Ministry will lower the minimum bids for auctions on oil fields at the end of the month. The most recent oil auction in July generated little interest; only two of 14 exploratory oil blocks were awarded.

Page 2

## POWER SECTOR

## Glencore May Sell Future Portions of Mining Output

Multinational mining company Glencore is in talks to sell a portion of its future copper mining production in Chile and Peru.

Page 3

## OIL &amp; GAS

## Pemex, Union Reach Salary Raise Agreement

Mexican state-owned oil company Pemex reached an agreement with its workers' union for a 3.99 percent salary increase. The agreement is considered crucial to reducing Pemex's 1.5 trillion pesos (\$89 billion) in labor liabilities.

Page 2



Emilio Lozoya, CEO of Pemex. // File Photo: Mexican Government.

## OIL &amp; GAS SECTOR NEWS

## Mexico to Set Minimum Bids for Sept. 30 Oil Auction

The Mexican Finance Ministry will lower the minimum bids for auctions on oil fields at the end of the month, The Wall Street Journal reported Monday. The most recent oil auction in July generated little interest; only two of 14 exploratory oil blocks were awarded. The Finance Ministry said the minimum bids would still allow the government to recuperate a sizable portion of the profit, while remaining competitive on the global market, given low global prices for oil and gas. There are currently 14 companies and consortiums that qualify to bid on the oil fields on Sept. 30, including Chevron, Royal Dutch Shell and Mexican companies Carso Oil & Gas and Petrobal, The Wall Street Journal cited the National Hydrocarbons Commission as saying. Industry analysts applaud the move by the Finance Ministry, but caution that contract terms may also need to be revised, as they may be still too burdensome, given the global oil market. The minimum bids for the upcoming auction are set at 30.2 percent for a grouping of two fields called Misión and Nak, to 35.9 percent for the lone field of Hokchi. In the July auction, minimum bids were not announced ahead of time, and were not determined based on oil prices, two components that the Finance Ministry has adjusted for this month's auction.

## Petrobras to Use GE's Sulfate Removal Technology

Brazilian state-owned oil company Petrobras will be using United States-based General Electric's new seawater sulfate removal nanofiltration membrane in order to remove sulfate from water injection applications, World Oil reported, citing an announcement from GE on Tuesday. This follows a trend of more oil companies

looking for new water treatment technologies as they begin to drill for oil in deeper waters. Petrobras is seen as an industry leader in using enhanced oil recovery and sulfate reducing unit technologies. The partnership between Petrobras and GE is an opportunity for innovation in this field. GE developed this technology based on Petrobras' specifications for sulfate removal, and succeeded in surpassing those specifications to reach 99.8 percent removal



GE has created a new sulfate removal membrane for offshore drilling activity. // File Photo: General Electric Water and Process Technologies.

threshold, up from the required 99.5 percent. "Petrobras' endorsement reflects the upstream sector's demand for more effective technologies that can help protect production equipment as companies venture into deeper, more challenging production conditions," said Yuvbir Singh, a representative from GE.

## Pemex, Union Reached Agreement on Salary Raise

Mexican state-owned oil company Pemex reached an agreement with its workers' union for a 3.99 percent salary increase, EFE reported on Sept. 10, citing a statement from the company. In the statement, Pemex did not give details into the negotiations, which took place over the course of several months. Pemex CEO Emilio Lozoya and the union's secretary general, Carlos Romero, signed the accords on Sept. 9. The agreement is considered crucial to reducing Pemex's 1.5 trillion pesos (\$89 billion) in labor liabilities. The company and union are also expected to reach an agreement on its retirement policy. In a statement cited by the

## NEWS BRIEFS

## Petrobras Names Carvalho as Interim Chairman

Brazilian state-owned oil company Petrobras named Luiz Nelson de Carvalho as its interim chairman, The Wall Street Journal reported on Tuesday. Carvalho replaces Murilo Ferreira, who on Monday took a leave of absence from his position of chairman of the board of Petrobras, citing "personal reasons." Ferreira's decision raised questions about possible dissent among board members in light of the company's debt burden and the protracted investigation into its massive corruption scandal. Carvalho has been a member of the board since May and is the head of Petrobras' audit committee.

## New Gas Reserves Discovered in Bolivia, Morales Confirms

Bolivian President Evo Morales on Tuesday confirmed the discovery of two natural gas reserves in fields managed by an energy consortium led by Spain-based Repsol, EFE reported. The Margarita and Huacaya fields, where the reserves were found, are located in the Caipipendi block. Both Repsol and Britain-based BG Group each own a 37.5 percent stake in the fields. Pan-American Energy owns a 25 percent stake. The production potential of the reserves has yet to be confirmed.

## S&P Downgrades Petrobras to Junk Status

Brazilian state-owned oil company Petrobras was downgraded to junk status by Standard & Poor's, following the same downgrade on Brazil's sovereign debt by the ratings firm, Reuters reported on Sept. 10. S&P lowered the oil company by two levels, and said that the outlook was negative. The ratings company also downgraded 30 other Brazilian state-owned companies.

wire service, Lozoya said the accords were part of an effort to make Pemex more competitive in light of the difficulties of Mexico's recent energy reform and the current state of the global oil market. The energy reform, which was enacted in 2013, is expected to bring in tens of billions of dollars in foreign and domestic investment and reverse a trend of decline in oil output. Oil output is currently at 2.3 million barrels per day.

## POWER SECTOR NEWS

## Glencore May Sell Portions of Mining Output in Chile, Peru

Multinational mining company Glencore is in talks with five companies to sell a portion of its future copper mining production in Chile and Peru, Mining.com reported Wednesday, citing the Global Mining Observer. Franco-Nevada Corp., Silver Wheaton and Royal Gold are among the companies reportedly involved in the discussions. The deals could include the Collahuasi mine in Chile and the Antamina and Antapaccay mines in Peru.

## Statkraft Opened Ninth Hydropower Plant in Peru

Norwegian state-owned electricity company Statkraft opened the Cheves hydropower plant, its ninth in Peru, on Wednesday, Scandinavian Oil and Gas Magazine reported. Cheves will increase Statkraft's renewable energy generation in Peru to 2,500 gigawatt-hours (GWh) per year. The plant is located on the Huaura River, 130 kilometers north of Lima. Cheves is expected to produce 840 GWh from water from the Andes Mountains. The electricity generated will be sold to eight local distribution companies, based on a previous Power Purchase Agreement.

## Canadian Hydro Exports to U.S. Could Raise Energy Costs

The price of power in the New England region of the United States could spike an estimated \$777 million per year if the region's electric

customers are forced to subsidize the cost of building new transmission lines to import as much as 2,400 MW of hydroelectric power from Canada, the New England Power Generators Association said Wednesday. An independent study from The Analysis Group said that the cost of Canadian hydropower in New England would be about \$97/MWh or \$42/MWh above the average power price for customers since 2012.

## FEATURED Q&amp;A / Continued from page 1

including some large hydro plants, have no storage capacity to compensate for their highly variable output. So, complementary investment in backup power generation and, often, fuel consumption, are required. In Brazil, where power generation still is mainly hydro, most of these sources fit into the power system in a different way than they do in a thermal base system, where they reduce fuel consumption. In a hydro base system, they may induce more thermal power generation or more reservoir depletion. Therefore, their expansion should be associated with increased storage capacity and/or follow a thermal generation share increase. The problems mentioned regarding federal energy companies may affect some investments, but not to the point of jeopardizing the investment program as a whole. The government and the majority of public opinion agree that these problems concern particular managers and not the corporations in which they were working."

**A** **Francisco Ebeling Barros, independent Rio de Janeiro-based energy consultant:** "Despite recent developments concerning corruption scandals in Brazil, the government's plans to sign contracts worth 186 billion reais (\$53 billion) for energy generation and transmission projects over the next three years cannot be dismissed. Especially for private investors, the government is willing to do everything to regain business' trust, and strategic plans to increase the country's installed energy-producing capacity are of-

fered with very business-friendly conditions. Another important issue is that this plan privileges renewable energy production—especially wind power—which in recent years has had an impressive upward trend. In this sense, the planet will most likely thank the Brazilian government. It is less clear whether end consumers, industry and Brazil's macroeconomy will benefit from those plans. It is difficult to prognose, at least in the medium term, if energy prices will drop significantly, due to the recent history of voluntaristic and fuzzy decision-making in Brazil's electric power industry, especially when it concerns tariffs. With respect to the macroeconomy, Lord Keynes once said that filling bottles with old banknotes and burying them in disused coal mines would be a reasonable measure against unemployment and could lead to a greater real income for the community. Unfortunately, considering today's desolate macroeconomic outlook, I'm not certain that doing anything, whether that be burying bottles or signing such contracts, could be helpful for steering Brazil's most important macroeconomic variables, such as growth and employment. Rather, a much more strategic plan is required, and I don't believe that what is under way in Brazil's energy industry points to the right direction."

**A** **Adriane Silva, associate director at Fitch Ratings:** "Fitch believes the success of the power sector's recently announced investment program will depend upon the government's capacity to offer

Continued on page 6

## POLITICAL NEWS

## Powerful Earthquake Strikes Chile, at Least Eight Dead

A powerful 8.3 magnitude earthquake struck Chile's coastline Wednesday night, leaving at least eight people dead and forcing more than one million people to evacuate. The quake hit at 7:54 p.m. local time and was centered 29 miles west of Illapel, at a depth of 15.5 miles, according to the U.S. Geological Survey. The quake was felt as far away as São Paulo, more than 2,000 miles away, The New York Times reported. In a televised address after the earthquake, Chilean President Michelle Bachelet said her government was inspecting the damage. "Once again we have to confront a tough blow from nature," said Bachelet, referring to the country's history of earthquakes. Bachelet urged evacuees to remain on higher ground until the damage could be completely evaluated, the Associated Press reported. Most of the country's schools are expected to be closed Thursday. The country's national emergency service ordered residents to evacuate from the coast and also ordered residents to leave their homes on Easter Island as well as the Juan Fernández archipelago, The New York Times reported. In all, more than one million people were evacuated, and power was cut to 243,000 homes, according to Mahmud Aleuy, Chile's undersecretary of the interior. The death toll could climb as emergency crews reach the hardest-hit areas, officials said. Of the eight people who were confirmed dead on Thursday night, a 35-year-old woman was killed in Illapel when she was crushed by a falling wall, and a 20-year-old woman was killed after being struck by rocks, The New York Times reported. Three men—two in Valparaíso and one in Santiago—died after suffering heart attacks. The quake caused large waves, which reached 15 feet, in the port city of Coquimbo, 285 miles north of Santiago. Flooding hit many parts of the town, damaging the port, a fishing wharf and parts of downtown. Extensive flooding also hit the town of Tongoy, destroying a police station, a preschool and parts of a health clinic,

## THE DIALOGUE CONTINUES

### Will Renewable Energy Remain Economical for the Caribbean?

**Q** Officials in Barbados announced in August they are launching a new Caribbean Centre for Renewable Energy and Energy Efficiency later this year, funded in part by European governments. The center will aim to ensure that all Caribbean countries have the same standards relating to renewable energy and energy efficiency as well as similar technologies and the necessary legislation in place. Is such a facility in Barbados a constructive step toward advancing renewable energy and efficiency in the Caribbean?

**A** Christiaan Gischler Blanco, senior energy specialist at the Inter-American Development Bank: "Except for Trinidad and Tobago, which has ample natural gas reserves, the rest of the Caribbean region depends almost entirely on imported liquid fossil fuels for transportation and electricity. Due to a combination of aging infrastructure and small, isolated markets, consumers in the Caribbean pay as much as four times as much per kilowatt/hour than customers in the United States and as a result, expensive power translates into higher costs for goods and services, having a negative effect on the competitiveness of the region. In this regard, an initiative aimed at fostering and introducing these technologies could provide the value added to promote targeted investments and guarantee financing. While the financing could be obtained from development banks, there is also a need for an entity like the Caribbean Centre for Renewable Energy and Energy Efficiency (CCREE),

which has the potential capacity to assess and guide the region in its transition towards sustainable energy. We at the IDB believe that the establishment of CCREE is a step in the right direction. Relying on oil low prices for power generation is not a sustainable strategy. Caribbean leaders have learned this hard lesson. Price volatility is worrying to leaders in the Caribbean. Additionally, oil prices are unlikely to remain this low for long. The currently low prices for energy provide an opportunity for Caribbean leaders to invest in technologies and applications that will result in lower cost of electricity in the medium to long term, focusing on energy efficiency, renewable energy, and other cleaner fuels. Europe is active and is not alone in funding the development of renewable energy in the Caribbean region. The United States, Canada, Korea, Japan and even China are investing in renewables in the Caribbean region. The shift toward clean energy technologies is a worldwide trend. Although Europe and other developed countries may see renewable energy projects as a way to mitigate carbon emissions, these new energy technologies will also reduce electricity tariffs in the long run, save scarce financial resources, contribute to fiscal sustainability, create jobs and result in new export markets for Caribbean innovators, such as solar water heaters produced in Barbados."

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**EDITOR'S NOTE:** More commentary on this topic appeared in last week's issue of the Energy Advisor.

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authorities said. Tsunami warnings were issued for locations as far away as California and New Zealand. The Pacific Tsunami Warning Center

issued a tsunami watch for Hawaii but later downgraded it to an advisory, the AP reported. Chilean officials lifted tsunami warnings for the

## NEWS BRIEFS

## U.S. Appeals Court Rules in Argentina's Favor in Bond Dispute

In a win for Argentina, a U.S. federal appeals court ruled in the Argentina-U.S. hedge fund managers case that a district judge should not have allowed some bondholders to demand repayment without proving how much they are owed, the Associated Press reported Wednesday. The 2nd U.S. Circuit Court of Appeals ruled that District Judge Thomas P. Griesa had over-simplified the class of bondholders who would be affected by his ruling, making it too easy for bondholders who were not the original purchasers of the bonds from Argentina to demand repayment.

## Raúl Castro to Address U.N. General Assembly Late This Month

Cuban President Raúl Castro is set to speak to the U.N. General Assembly later this month, during his first visit to the United States since he has assumed the presidency, Reuters reported, citing a statement from the United Nations. Neither representatives from the White House nor the Cuban government responded to the wire service's query as to whether President Obama and Castro would meet individually during the meeting. Castro is known to have made only one visit to the United States—a brief visit to Houston in 1959 after the Cuban Revolution.

## Orosur Mining Reports Production, Costs in Line With Guidance

South America-focused Orosur Mining announced Monday that its production and costs are in line with its previously stated guidance. For the quarter that ended Aug. 31, the company said it produced 12,471 ounces of gold and had cash operating costs of \$954 per ounce.

country early Thursday. Although the full impact of the quake was not yet clear early Thursday, it appeared that the earthquake was less damaging than an 8.8 magnitude earthquake that struck Chile in 2010, leaving more than 500 people dead and causing billions of dollars in damage. Since then, emergency planning and measures to reduce risk have improved, according to experts. "It is true that preparedness and risk reduction in Chile is ahead of that in much of the world, and that makes a difference," Susan Hough, a geophysicist at the U.S. Geological Survey, told the AP. Late Wednesday and early today there were several aftershocks, including one with a 7.0 magnitude, according to the U.S. Geological Survey.

## Brazilian Authorities Seek to Question Lula in Petrobras Case

Brazilian authorities are seeking to question former President Luiz Inácio Lula da Silva about his possible connection to the massive Petrobras scandal, The Wall Street Journal reported on Sept. 11. Federal police from Brasília believe the former president and the ruling Workers' Party, or PT, "could have ben-



Lula // File Photo: Carlosar.

efited" from the corruption that is now being investigated and has implicated many Brazilian government officials. President Dilma Rousseff has denied any involvement and has so far not been accused of corruption. A court filing from the federal police alleged that Lula, "as the leader of the country, could have benefited from the scheme under way at Petrobras, gaining advantages for himself, for his party, the PT, or even for his government." The filing asked the Supreme Court for permission to question Lula as one of the suspected public

figures who may have collected bribes as part of the corruption scheme. The Supreme Court has not said when it will rule on the motion.

## ECONOMIC NEWS

## Brazil Job Losses Expected to Top One Million This Year

More than one million workers in Brazil will lose their jobs this year as an effect of the country's recession, the Rio de Janeiro State Federation of Industries said Wednesday, the Associated Press reported. The industry federation said that a recent analysis indicated that between 1.2 million and 1.6 million jobs will be lost this year, making for the largest job

**The federation said that 1.2 million to 1.6 million jobs will be lost this year.**

losses for the South American nation in the past 17 years. In 1998, 580,000 Brazilians lost their jobs. Government statistics bureau IBGE said in August that Brazil's GDP had contracted for the second quarter in a row, officially marking a recession. The economy shrank 1.9 percent in the second quarter compared to the first quarter; GDP shrank 0.7 percent in the first quarter of 2015 as compared to the last quarter of 2014. This year, Brazil has faced a drop in international commodity prices, sluggish global economic growth, rising inflation and high interest rates. "Given that the economy is not expected to resume growing until 2017, the job market will continue to weaken next year," said economist Gesner Oliveira, president of São Paulo consulting firm GO Associados in an email to the AP. He also said that the construction and manufacturing industries would see the highest job loss rate of all industries in the country.

## FEATURED Q&amp;A / Continued from page 3

adequate return on investment, despite the adverse macroeconomic scenario. Maximum tariffs for the bids should consider more costly sources of funding and a possibly lower participation from Banco Nacional de Desenvolvimento Economico e Social (BNDES) in the financing of future expansion projects. Brazil expects to increase its generation capacity by 4 percent per year and to add approximately 70,000 kilometers of transmission lines through 2023. These expectations consider an annual average GDP growth of 4.3 percent for the same period, according to Empresa de Pesquisa Energetica, a federal government entity that provides services for studies and research designed to support the power sector planning. Fitch does not expect the corruption scandal at Petrobras to have a material negative impact on the Brazilian power sector."

**A** **John M. Albuquerque Forman, president of J Forman Consultoria in Rio de Janeiro:** "Brazil, at the moment, is facing a political crisis and a financial crisis, has just been downgraded by S&P and is facing the so called 'Car Wash' scandal related to Petrobras. The government sent to Congress, as it has to do every August, a federal budget proposal which, for 2016, includes a deficit

of more than 30 billion reais. Due to the way the federal budget is structured, more than 70 percent of expenditures are mandatory and cannot be reduced. What is left for investment is a very small percentage of the total amount. In light of the crises, the government has decided to produce and divulge 'good news,' to indicate that investments in infrastructure will be made. For electricity, new generation and transmission capacity is offered by the government through tenders that take place during the year. The investment is from the private sector, although it should be pointed out that in the past the winners of the tenders have resorted to BNDES for financing, which is something that probably will not be readily available now as in the past. The coming tenders will indicate whether new capacity will be built. Because the economy is either stagnant or having negative results, the demand for more energy will be delayed. As for the possibility of new legal procedures against executives of the energy sector, the Supreme Court is evaluating a request that non-Petrobras issues should be handled in a different court with a different judge presiding."

*The Advisor welcomes comments on its Q&A section. Readers can contact editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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