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THEDIALOGUE

FEATURED Q&A

Will Argentina's Oil Sector Thrive Under Macri?

Argentine President Mauricio Macri's changes to the energy sector have left many hopeful that he may spur enduring growth. // File Photo: Argentine Government.

Q Soon after winning election, Argentine President Mauricio Macri said his country and Chile may resume trading natural gas in the coming years, something that would be made possible by anticipated gains in hydrocarbon production. Meanwhile, national oil company YPF also announced in December that it will join with Dow Argentina to invest $500 million into shale gas exploration, one of the biggest investments in Argentina to be announced in years. Will Argentina's energy sector under Macri's administration see the big advances that optimists are hoping for? What other major changes will Macri make to the energy sector early in his presidency? Will business-friendly Macri be able to attract more FDI in the current climate of low global oil prices?

A Isabella Alcañiz, assistant professor of government and politics at the University of Maryland: "The market signals are there: a new ministry of energy led by a former Shell executive; significant cuts in the 2016 budget of government subsidies for natural gas and electricity consumers; the lifting of capital controls; and the devaluation of the peso (this measure mainly geared toward the agricultural sector). As a business magnate himself, President Mauricio Macri no doubt has the bona fides to persuade international investors that the country, under his leadership, is open for business. Many celebrate, or fear, Macri as a 21st century version of Carlos Menem, the 1990s market-liberalizing Peronist president. But Mauricio Macri is no Carlos Menem. The difference is in the party. Macri's Cambiemos political party holds only 5 percent of the Senate and 20 percent of the

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TODAY'S NEWS

ECONOMIC

U.S., Cuba to Restore Commercial Flights

U.S. officials plan to travel today to Havana to sign an agreement with Cuban officials to restore scheduled commercial flights between the two countries for the first time in more than 50 years.

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POLITICAL

Privert Chosen as Haiti's Interim President

Lawmakers chose Senate leader Jocelerme Privert as Haiti's caretaker president following last week's departure of President Michel Martelly who left office without a successor in place.

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POLITICAL

Venezuela's President Names Economy Czar

Venezuelan President Nicolás Maduro Named Trade and Industry Minister Miguel Pérez Abad his new vice president for economy.

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Pérez Abad // File Photo: Venezolana de Televisión.

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ECONOMIC NEWS

U.S., Cuba to Restore Commercial Flights

U.S. officials are planning to travel today to Havana in order to sign an agreement with Cuban officials to restore regularly scheduled commercial airline service between the two nations, Reuters reported, citing the U.S. Department of Transportation. The pact comes more than a year after U.S. President Barack Obama and Cuban President Raúl Castro first announced the historic thaw between the two

The deal would allow for as many as 30 scheduled round-trip flights between the two countries.

Cold War foes and will mark the first time in more than 50 years that scheduled commercial air service will occur between the United States and Cuba. U.S.-based airlines still must seek permission from U.S. regulators in order to operate specific routes between the United States and Cuba. Beginning today, U.S. airlines will have 15 days to submit their applications to the Department of Transportation, Brandon Belford, the department's deputy assistant secretary for aviation and international affairs, told reporters. Later this year, officials will decide on the individual applications, he said. The agreement that U.S. and Cuban officials are to sign will allow for 20 round-trip flights between the United States and Havana. It also will allow for as many as 10 round-trip flights to nine other airports in Cuba. In related news, the Obama administration has approved Alabama-based company Cleber to build and operate a factory to make tractors in Cuba, USA Today reported. The company said it received notification last week from the Treasury Department to build the plant. The facility would be the first U.S. factory to be built in Cuba in more than 50 years. Cleber co-founder, Saul Berenthal, said a company attorney was in Havana Monday to finalize an agreement with Cuba's government, adding that the company is aiming to begin production early next year. The United States still has an economic embargo that restricts U.S. tourism and most trade with Cuba. Only Congress can lift the embargo, an action Obama has urged. However, the Obama administration has taken what actions it can to loosen restrictions. Among those changes was a move to allow U.S.-based companies to sell goods and services directly to private entrepreneurs in Cuba, a change that allowed Cleber to move forward with building the factory, which plans to produce tractors for use by small farms.

Venezuela, Other Oil Producers Agree to Freeze Output

Russia and OPEC members Saudi Arabia, Venezuela and Qatar agreed today to freeze their oil production at January levels as long as other countries such as Iran and Iraq do the same, The Wall Street Journal reported. The announcement was made after the oil ministers of the four countries met today in Doha, and the deal is designed to support oil prices, which have plummeted over the past several months, BBC News reported. The price of crude has dropped some 70 percent since its peak of

Del Pino // File Photo: Venezuelan Government.

$116 per barrel in June 2014. The agreement does not include Iran, but it does mark the first significant cooperation between members and non-members of OPEC in the past 15 years, Bloomberg News reported. Saudi Arabian officials added that they are willing to discuss further action. Venezuelan Oil Minister Eulogio

NEWS BRIEFS

Pope Francis Asks Mexico's Indigenous for Forgiveness

Pope Francis on Monday asked indigenous people in Mexico's Chiapas state for forgiveness for their exclusion from society, BBC News reported. The pope made the appeal during a Mass he celebrated in three native languages in San Cristóbal de las Casas. The pontiff is on a five-day trip to Mexico and plans to travel today to Michoacán state.

Peru's Economy Grew 3.26% in 2015

Peru's economy grew by 3.26 percent last year, faster than had been previously predicted, Reuters reported Monday. The growth is due in part to a surge in copper output in December and to a rise in anchovy catches, state statistics agency Inei said Monday. Copper exports rose 68 percent and fishing activity was up 83 percent, Inei said. Peru's economy had previously struggled, growing only 2.4 per-cent in 2014 after a decade-long mining boom. Despite slumping copper prices, growth in Peru is expected to continue to accelerate this year.

Maduro Names Pérez Abad Economy Czar

Venezuelan President Nicolás Maduro appointed Trade and Industry Minister Miguel Pérez Abad, an infrastructure contractor, as the country's new vice president for economy, a post Maduro created two years ago to guide economic strategy, The Wall Street Journal reported Monday. Pérez Abad will replace leftist sociologist Luís Salas, who has denied the existence of inflation and had argued for the dissolution of the central government during the country's deepest recession in its history. Venezuela's GDP is expected to contract 8 percent this year, with inflation rising to 720 percent, according to the International Monetary Fund.

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lower chamber. Cambiemos does not do much better at the federal level, given that the party has only two—three counting a coalition government—provinces. In a country with such a risky reputation, many of the key macro changes that are needed to attract more foreign investors to the energy sector will require cooperation with the opposition. To address the fiscal deficit, tame rising inflation and negotiate with the vulture funds holding out for debt repayment, Macri will need to go through Congress. In his first weeks in office, Macri has been willing to alienate opponents by issuing a series of executive decrees, but to ensure deep reform, as Menem would tell him, you need laws."

Jeremy M. Martin, director of the Energy Program at the Institute of the Americas: "Macri's election has unleashed huge interest and optimism about the country. There is a new outlook for foreign policy and Argentina's international posture. Macri has made clear his intentions to boost the nation's flagging economy and give the energy sector a much-needed shot in the arm. To wit, only a week into his term he declared an energy emergency through 2017 and with it powers to stave off outages. Moreover, he moved quickly to establish an economic cabinet, including a new ministry of energy and mines with former head of Shell Argentina, Juan José Aranguren taking over as minister. Energy contributes around 5 percent of Argentina's GDP and 6 percent of its export revenue. But this figure must rise if the country is to revitalize the energy sector as a motor for economic growth and a significant driver of reform. Once a major energy exporter and pioneer in the development of natural gas and regional integration, energy imports are now costing Argentina more than $6 billion per year. The development of Vaca Muerta's shale resources will require an estimated $200 billion. But the good news is that investment is arriving. Chevron, ExxonMobil, Petronas, Wintershall and Shell continue with important projects, with Dow joining the fray. A critical task for the new president will be to generate legal, regulatory and judicial certainty. A central element of revitalizing the energy sector requires restoring confidence in the nation's institutions and regulators. These mundane but fundamental pieces must be confronted with alacrity by the new administration and its economic cabinet and will go a long way to reassuring investors that Argentina is once again ready to play by the rules of the game. The Macri administration has a long road ahead, and expectations are increasingly outsized. But, if the rhetoric of the last few weeks can match reality, the nation's energy sector is set for a renaissance."

> **"A critical task for the new president will be to generate legal, regulatory and judicial certainty."**
>
> **— Jeremy M. Martin**

Juan Cruz Díaz, managing director of Cefeidas Group: "Since taking office, President Mauricio Macri has demonstrated his determination to make changes to attract foreign investment and boost Argentina's energy sector. In addition to introducing a raft of fiscal and economic policy changes to spur investor interest—such as lifting currency controls, managing a sharp devaluation and removing the majority of export duties—he has made a number of moves targeted at transforming the energy sector. Through an executive decree, Macri empowered Energy Minister Juan José Aranguren to declare a two-year state of emergency for the national electricity system. This grants Aranguren, a former CEO of Shell Argentina, the authority to ration energy, push through contracts with

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Del Pino has traveled to major oil-producing nations in an effort to rally support for freezing production in order to stabilize the price of oil, on which Venezuela depends for foreign income. Del Pino said today that he would travel to Tehran to meet Iranian and Iraqi officials.

POLITICAL NEWS

Haitian Lawmakers Name Senate Leader as Interim President

Haitian lawmakers on Sunday chose Senate chief Jocelerme Privert to serve as the country's interim president and to lead the transition to Haiti's new government after former President Michel Martelly's term ended last week, The Wall Street Journal reported. A runoff presidential election was delayed for the second time last month amid violent protests and allegations of vote rigging. Because Martelly was constitutionally banned from running for a consecutive term as president, he stepped down from his post without a successor in place. Less than 24 hours before his departure, Haitian leaders created a short-term plan for a provisional government and a plan to hold the presidential and legislative runoff elections in the next 120 days. In a speech to legislators before the vote to install him as interim president, Privert promised to lead a caretaker government that would "foster confidence within all sectors of society," ensure stability and see that suspended elections are held "as soon as possible," The Wall Street Journal reported. Privert also recently said that a new electoral council will be created in order to ensure that the upcoming elections are fair and transparent, with a vote tentatively scheduled for April 24. The council has been charged with the responsibility of setting the date for the election, as well as taking care of all other electoral matters, Privert said. Prime Minister Evans Paul remains in office for now, but lawmakers are expected to confirm a provisional prime minister in the coming days.

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providers and increase electricity prices. Any changes to subsidies are likely to be gradual, to lessen the impact on the general public, but will eventually help reduce dependency on imports. Moreover, the administration has suggested that the domestic oil price will remain fixed at an elevated level for the foreseeable future, which will continue to attract oil majors looking for profitable investments. Aranguren has also noted the government will seek to increase gas prices to incentivize production. The regulatory environment is poised for imminent improvement, and the energy sector has the potential to become a future driver of economic growth. The sheer scale of the fiscal challenges Macri faces mean the road to economic normalization will be a long one. Getting the politics right will help the government to make all these changes sustainable. Also, in addition to environmental and social risks, the principal long-term threats to the industry's successful development are geological and technical, but I believe these are surmountable and ultimately, unlikely to prevent the industry's growth in Argentina. The key challenge for Macri will be to ensure that Argentina's business climate is capable of attracting the level of investment needed to make the energy sector profitable and Argentina energy independent once more."

Jose L. Valera, partner at Mayer Brown LLP: "Judging by all the policy changes so far, there is every indication that the energy sector in Argentina will experience a number of positive changes under the Macri administration. There is indeed reason to be optimistic. Argentina has always had the resources. It was due to the policies of the Kirchner administrations that Argentina's reserves and production went down, the country turned itself into an importer and import price subsidies ballooned. The problems were all 'above ground.' Fortunately for Argentina, that is easier to fix. With the currency exchange controls already lifted and foreign trade and financial markets quickly being normalized, what remains now is to restore independence to utility regulators and remove all wholesale price controls in order to see the free market invest capital to fully and efficiently develop Argentina's vast resources. Under the last Kirchner administration, Argentina's gas supply was a function of how much gas the government could afford to import, and that stunted the country's industrialization and distorted consumption. During the late 1990s, the private sector built five pipelines across the Andes for the export of Argentina's natural gas to Chile. Those pipelines are unused now, but it is reasonable to assume that Argentina could be exporting gas to Chile again in a few years' time. Chile's gas consumption continues to grow, as witnessed by the announced expansion of the Quintero LNG terminal, the ongoing development in the Concepcion area of what would be Chile's third LNG import terminal, and the announced development of additional gas-fired power generation throughout the country."

> **"The energy sector has the potential to become a future driver of economic growth."**
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> **— Juan Cruz Díaz**

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