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THEDIALOGUE

FEATURED Q&A

Will Temer Be Able to Rewrite Brazil's Energy Policies?

Brazilian President Michel Temer has vowed to implement policies with the goal of attracting investment in the energy sector. // File Photo: Brazilian Government.

Q Michel Temer was sworn in as Brazil's president on Aug. 31, replacing ousted President Dilma Rousseff. How will the change in government, which puts Temer in power until 2018, affect Brazil's struggling energy sector? Will the Temer administration be able to work with Congress and turn the page on Petrobras' protracted corruption scandal? What energy policy changes are expected to come from a Temer government?

A Henrique Rzezinski, vice president of external relations at Parnaiba Gas Natural in Rio de Janeiro: "President Temer has a historic chance to upgrade his biography, from the most unpopular president in Brazil's recent history to the president who was able to approve the vital reforms the country desperately needed. And this is the one simple choice he has to make: either run for re-election or use all his political capital to pass the reforms in Congress, even if it means paying the price of unpopularity. One of the vital reforms is related to the energy sector. The regulatory and institutional framework has to generally change in the following ways: 1) rebuild Petrobras by selling assets to financially equilibrate the company and changing governance in order to avoid corruption; 2) reintroduce the concession regime in place of the production-sharing regime, as was the case with the very successful 1998 regulatory framework, when important results were achieved for all players like Petrobras, the federal government, the states as well as national and international companies; 3) end Petrobras' obligation to be the single operator in the pre-salt as well as the 30 percent min-

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TODAY'S NEWS

POLITICAL

Hurricane Death Toll in Haiti Passes 300

The death toll in Haiti from Hurricane Matthew has soared past 300 and could climb further as rescuers reach devastated areas. Haiti's southwestern peninsula was particularly hard hit, with towns razed by near-record winds.

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ECONOMIC

Fitch Lowers Mexico Growth Forecasts

Fitch now says it expects the country's growth this year to reach 2 percent, down from an earlier forecast of 2.4 percent. The New York ratings agency also reduced next year's growth expectations from 2.8 percent to 2.6 percent.

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POLITICAL

Colombia's Santos Wins 2016 Nobel Peace Prize

Colombian President Juan Manuel Santos on Friday won the 2016 Nobel Peace Prize for his efforts to end the country's half-century civil war.

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Santos // File Photo: Government of Colombia.

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POLITICAL NEWS

Colombian President Wins 2016 Nobel Peace Prize

Colombian President Juan Manuel Santos on Friday won the 2016 Nobel Peace Prize for his efforts to end the country's half-century civil war, the Associated Press reported. Santos and the leader of the Revolutionary Armed Forces of Colombia, Rodrigo Londoño, who some expected would win the prize jointly with Santos but ultimately did not, signed a peace deal on Sept. 26, ending hostilities, only to see their efforts blocked following a surprise vote against the agreement in a referendum six days later. "It had been widely assumed that Santos would get the Nobel Peace Prize for his unyielding efforts," Michael Shifter, the president of the Inter-American Dialogue told the Advisor, "but last Sunday's vote rejecting the deal he negotiated with the FARC was a blow and has created uncertainty" over who would win this year, he added. In a Website statement, the Nobel Committee recognized the challenges still facing Santos. "The president himself has made it clear that he will continue to work for peace right up until his very last day in office," the committee said, adding that it "hopes that the Peace Prize will give him strength to succeed in this demanding task." Although he was not named a joint winner, the Nobel Committee did cite Londoño by name in the release, calling on him to "continue to respect the ceasefire" reached last month.

SUBSCRIBER NOTICE

The Latin America Advisor will not be published on Monday, Oct. 10, in observance of the Columbus Day holiday in the United States. We will resume publication on Tuesday, Oct. 11.

Hurricane Death Toll in Haiti Passes 300

The death toll in Haiti from Hurricane Matthew has soared past 300 and could climb further as rescuers reach devastated areas, Agence France-Presse reported today. Haiti's southwestern peninsula has been particularly hard hit, with international aid agency CARE saying the southern city of Jeremie was nearly wiped out. "It's complete destruction in Jeremie," CARE Haiti country director Jean-Michel Vigreux tweeted. "About 80 percent of the buildings are gone. All phone lines and electricity are gone. Access is completely cut off, and everyone is running out of food and money," he said, according to the report. Officials with Haiti's Civil Protection Agency said about 10 percent of the known deaths were reported in Grand-Anse alone. In nearby Cuba, Matthew blew across that island's sparsely populated eastern tip, where the government oversaw the evacuation of nearly 380,000 people and measures were taken to protect communities and

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imum participation requirement of Petrobras in all Joint Operations Agreements (JOA); and 4) change the local content rules and make them more realistic for local industry ambitions. Several regulatory changes have to be approved in order to implement different modes of gas monetizations such as gas to wire and others. In other words, it is a task for a statesman, not a regular politician. History will tell us what kind of man Michel Temer is."

Johanna Mendelson Forman, senior advisor with the Managing Across Boundaries Initiative at the Stimson Center: "President Michel Temer's business-friendly Brazilian Democratic Movement Party may not be enough to help him rebuild the struggling energy sector in Brazil. Caught in a crisis of legitimacy, Temer's troubles with the Lava Jato legal investigation will not go away just because he was able to rid

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NEWS BRIEFS

Chilean President Approval Ratings Bounce Back

The approval rating of Chilean President Michelle Bachelet rose in September, bouncing back from historical lows a month earlier, Reuters reported Thursday. In a poll released this week by GfK Chile, the center-left Bachelet, who ruled in 2006-2010 and then returned for another four years in 2014, saw approval ratings rise to 23 percent in September from an all-time low of 19 percent in August, while her disapproval ratings fell to 72 percent from 77 percent the prior month.

Praxair Signs Deal With Fibria Celulose in Brazil

Connecticut-based Praxair's Brazilian subsidiary, White Martins, said Thursday it had signed a long-term agreement expanding its supply of oxygen to Fibria Celulose in Três Lagoas, the world's largest producer of eucalyptus pulp. The expansion is expected to be completed in late 2017. Praxair's new plant should help increase Fibria's capacity by nearly 37 percent, to 7.25 million tons annually. Fibria's expansion will demand an additional 160 tons per day of oxygen. The pulp manufactured by Fibria is exported to more than 40 countries. No financial details were disclosed.

Half of Brazilian Bank Branches Closed Amid Month-long Strike

A nationwide strike has closed more than half the bank branches in Brazil, South America's largest economy, the Associated Press reported Thursday. The National Confederation of Bank Workers said this week their strike demanding a nearly 15 percent pay raise and other concessions has become the longest bank workers strike in 12 years. About 350,000 of Brazil's 504,000 bank workers are on strike, closing about 13,000 branches.

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infrastructure, U.N. officials said. Earlier this week, Haitian authorities postponed presidential and legislative elections originally set for Sunday due to the storm, which is expected to circle back toward the Caribbean after skirting along the southeastern United States today.

BUSINESS NEWS

PDVSA Extends Early Bond Swap Deadline

Venezuelan state oil company PDVSA said on Thursday it was extending the first deadline for a bond swap to Oct. 12 from Oct. 6 because offers it had received were below a key limit required for the operation, Reuters reported. PDVSA last month offered to swap $7.1 billion in outstanding issues for a new bond, backed by its U.S. subsidiary Citgo, to boost its cash-strapped coffers, but investors have been slow to pick up on the offer. In related news, PDVSA announced Thursday it had entered into alliances with Chinese and Bulgarian companies to reactivate 931 wells in Lake Maracaibo, Platts reported. China-based Shandong Kerui Group Holding will repair 624 wells with $30 million in financing provided by the Chinese company, while the Bulgarian-Venezuelan Consortium Aleco will look at reactivating 307 wells in Lake Maracaibo, with financing of $100 million that would come from the Bulgarians, PDVSA added.

ECONOMIC NEWS

Fitch Lowers Mexico Growth Forecasts

Fitch Ratings on Thursday lowered its growth forecast for Mexico in both this year and next, Reuters reported. Fitch now says it expects the country's growth this year to reach 2 percent, down from an earlier forecast of 2.4 percent. The New York ratings agency also reduced next year's growth expectations from 2.8 percent to 2.6 percent. The revision is in response to a 0.2 percent contraction in the country's economy during the second quarter of this year, the company said in a statement. "An accelerated reduction of oil production, the increase in the level of international volatility ... as well as lower industrial sector performance in the U.S. pose risks on the downside of this forecast," Fitch said. In related news, consumer confidence in Mexico posted a large 1.8 percent decline in September, compared to the month before, adding to the also-large 2.3 percent and 1.5 percent declines recorded in July and August, according to a research note circulated by Goldman Sachs analyst Alberto Ramos on Thursday. Consumer confidence is now down 7.2 percent, year over year, bringing it to the weakest level since January 2014. Overall, the real business cycle in Mexico lost thrust and weakened during the second quarter of 2016, and the qualitative indicators released so far suggest a weak third quarter of 2016, according to the report. "Deteriorating consumer confidence ... is a source of growing concern, and it is likely to turn consumers/households more defensive (increase precautionary savings and reduce the appetite to buy durable goods) and through it undermine the hitherto strong buoyancy of private consumption," Ramos noted.

THE DIALOGUE CONTINUES

Does Peace in Colombia Stand a Chance?

Q By a narrow margin, Colombian voters on Sunday rejected their government's peace accords with the FARC rebels. The vote was a stinging defeat for President Juan Manuel Santos following nearly four years of peace talks in Havana, though Santos and FARC leader Timochenko vowed to continue seeking peace. What are the next steps forward for Colombia? Will the government and the FARC be able to renegotiate the peace deal to voters' satisfaction? If so, what changes must be made to the accord? Are the government and the FARC in danger of lapsing back into all-out war? How will international investors interpret the vote, and what does this mean for the government's economic development plans?

A Jorge Lara Urbaneja, partner at Arciniegas, Lara, Briceño & Plana in Bogotá: "The peace accord was defeated by the majority of Colombian voters because it was presented as a list of impositions from the FARC, in order for them to discontinue more than 50 years of ruthless crimes against the Colombian population. Such a list of impositions would have permanently changed the constitutional, judicial, legal and economic basis of the nation, and would have favored the FARC's economic interests and activities, mainly in rural areas. In addition, the government took a defiant position, presenting the vote as a decision between war and peace. Indeed, President Santos said in a public speech that he knew from good sources that, if the peace accord were voted down, the FARC would carry out a fierce plan of urban guerrilla warfare. Instead, after Sunday's results, all sides reacted positively. President Santos called all political forces to restructure the peace accord so as to reflect all interests. Rather than accusing the government of defeat, former President Álvaro Uribe and his Democratic Center party expressed their decision to contribute to the negotiation. Also, the government and the FARC expressed openness to revisiting the basis of the peace accord. Any new accord should avoid impunity for major crimes. The peace accord must foster private investment, particularly in rural areas, which requires time and money. Private investors will have to wait, but the future will probably be brighter for them as a result."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Tuesday's issue of the Advisor.

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himself of Rousseff. The investigation has revealed the connections between his party and the Workers' Party to siphon billions of dollars from Petrobras. Future outcomes in the corruption probe ultimately will not only affect the energy sector, but will also further erode the limited legitimacy that Temer and his government enjoy with ordinary Brazilians. Months before Dilma's removal from office at the end of August, many international oil industry analysts thought that a change in government would open a new chapter in Brazil's energy sector. But the scope of reforms needed may far exceed the government's capacity, given the high level of distrust in Congress and in President Temer's capacity to effect change. If Temer is able to set a reform agenda for Petrobras, he will face hostility from the Workers' Party in Congress in making any major changes. Layoffs in the sector due to Brazil's contracting economy, coupled with external factors such as the continued decline in global oil prices, will make extracting the pre-salt oil even more costly, at a time when Brazil's economy is already in a recession. Without any regulatory changes to allow private-sector companies to work on the pre-salt oil deposits currently managed by Petrobras, there will be little incentive for international companies to expand investments in the short term. Renewable energy, one of the hallmarks of Brazil's energy sector, will also be affected by the poor economic outlook in the coming year. Wind energy, one of the fastest-growing energy sectors, will suffer in the negative investment climate. Temer will have a tough time 'selling' this country to new investors and making good on the country's commitment to reducing greenhouse gases by having 23 percent of its energy coming from renewable resources by 2030, as the economic and political crisis continues to overshadow these types of policy goals."

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>
> **— Johanna Mendelson Forman**

Isabella Alcañiz, assistant professor of government and politics at the University of Maryland: "One of the areas that will require the immediate attention of the controversial new president of Brazil, Michel Temer, is the country's embattled energy sector. Even before the impeachment against Dilma Rousseff was finalized, Temer signaled that he would attempt to open the sector to foreign investment in order to pay staggering debts and revitalize energy giants Petrobras and Eletrobras. These companies have been deeply troubled by corruption scandals and falling international oil prices. But signals that Brazil is cleaning up shop have been mixed. Temer placed a young politician with no technical background and little political experience in energy policy—albeit from a powerful family—at the helm of the Ministry of Mining and Energy. There have been few serious attempts to push forward the investigation of corruption in Petrobras, and Temer himself has been implicated in the scandal. Temer will probably soon learn that with a small percentage of seats in Congress, it was much easier to whip up votes against an unpopular president in her second term than it is to pass legislation on deregulation. With a significantly polarized and tight domestic front, Temer will want to go abroad to seek foreign investment in the sector—in fact he has done already, with one trip to Asia under his belt, and another planned for the near future."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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