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FEATURED Q&A

Will Pushback Derail Mexico's Energy Reform?



Mexican President Enrique Peña Nieto's energy reform launched in 2013 and has faced widespread pushback in recent weeks. // File Photo: Mexican Government.

Q Protests erupted across Mexico in early January, resulting in the deaths of at least two people and the arrests of hundreds, following the government's decision to allow gasoline prices to rise 20 percent as part of its larger push to deregulate the energy sector. Will popular pushback derail President Enrique Peña Nieto's energy reform agenda? How should the government address the public's concerns over the steep increase in gasoline prices, which are nearly double the current price across the border in the United States? How is Mexico's energy reform faring, on the whole?

A Ixchel Castro, senior analyst for Latin America oils and refining markets at Wood Mackenzie: "The recent decision to increase gasoline prices, as painful as it has been for the government and for society, is only a small part of the energy reform, ongoing since 2013. So, despite the protests, it is hard to imagine that the reform could be derailed, since it will be almost fully implemented by the end of 2017. The reform was not just about retail prices; its goal was to attract new investment and create a competitive environment at the different levels of the supply chain for oil, gas and electricity. Attracting new companies to develop deepwater resources, expanding the pipeline network for natural gas and boosting the use of renewables for power generation are concrete achievements of the reform so far. This has all been achieved despite low oil prices and a hostile investment environment globally. The government has been emphatic that no delays or reversals in the policy will be considered. The president must therefore address the political backlash through other means, while maintaining

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TOP NEWS

OIL & GAS

ExxonMobil Discovers Oil Offshore Guyana

The discovery at its Payara-1 well is ExxonMobil's second on the Stabroek Block and was drilled in a new reservoir.

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RENEWABLES

Brazilian Officials Seek Renewables Auctions

Officials from Brazil's northeastern states met with the country's minister of mines and energy to ask for new rounds of renewable energy auctions this year.

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OIL & GAS

Oil, Gas Companies to Invest in Argentina

President Mauricio Macri announced that oil and gas companies had pledged to invest \$5 billion in Argentina this year and to double the investment annually in coming years. Industry executives said the agreement will cut down on drilling costs and will make the country's oil and gas sector more competitive.

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Macri // File Photo: Argentine Government.

OIL & GAS SECTOR NEWS

Oil and Gas Firms to Invest \$5 Billion in Argentina This Year

Oil and gas companies on Tuesday verbally pledged to invest at least \$5 billion in Argentina this year and to more than double that amount annually in coming years after unions agreed to cut labor costs, President Mauricio Macri said, The Wall Street Journal reported.



Gutiérrez // File Photo: YPF.

Industry executives said the agreement will cut down on drilling costs and will make the country's oil and gas sector more internationally competitive. The deal would also require the government to maintain a minimum floor price for newly produced natural gas through 2021, industry officials said. "We would likely invest 20 percent to 30 percent less this year without the agreement," said Miguel Gutiérrez, the chairman of Argentine state-run oil company YPF. The company plans to invest nearly \$2.3 billion in 2017, Gutiérrez said. YPF represents about half of all oil and gas investment in Argentina and accounts for approximately 90 percent of the country's new oil and gas wells. Gutiérrez added that the agreement will help YPF reduce capital expenditure costs by about 10 percent and operating costs by about 30 percent. Argentina's unions have in the past been accused of deterring some from investing in the country's oil and gas sector. In some cases, unions have required double the number of workers to operate a rig than at unconventional fields in North America, according to industry officials. Labor leaders agreed to make it easier for companies to manage drilling sites in

order to avoid layoffs. The unions also agreed to cut costs by not requiring companies to pay for workers to commute to and from job sites.

PDVSA Facing Legal Action From Crystallex, ConocoPhillips

Venezuela's PDVSA is facing new legal action from North American multinational oil companies, which say that the state oil company took steps to mortgage the assets of its U.S. subsidiary Citgo and repatriate the proceeds to Venezuela, The Wall Street Journal reported Jan. 5. Canadian miner Crystallex International and U.S. oil producer ConocoPhillips originally sought awards from Venezuela over the nationalizations of their operations under late President Hugo Chávez. They expanded their lawsuit after learning that PDVSA had allegedly taken steps to repatriate the proceeds of a mortgage of Citgo's assets, which would put them beyond the reach of U.S. courts.

ExxonMobil Announces Guyana Offshore Discovery

International oil and gas company ExxonMobil on Thursday announced it had discovered oil at its Payara-1 well offshore Guyana, the Jamaica

This important discovery further establishes the area as a significant exploration province."

— Steve Greenlee

Observer reported. The discovery is ExxonMobil's second in the Stabroek Block and was drilled in a new reservoir. The Payara-1 well targeted reservoirs that were similar in age to

NEWS BRIEFS

Two Energy Executives Plead Guilty in U.S. Court to Bribing PDVSA Officials

Two executives of U.S.-based energy companies on Tuesday pleaded guilty to charges of violating the Foreign Corrupt Practices Act in securing contracts with PDVSA by bribing officials of the Venezuelan state-run oil company, Reuters reported. Juan José Hernández Comerma and Charles Quintard Beech entered the pleas in U.S. federal court in Houston.

Peruvian Finance Minister to Seek Funding for Petroperú

Peruvian Finance Minister Alfredo Thorne said Wednesday he will seek to procure \$3 billion in financing for state-run energy company Petroperú, including a loan from Spanish state-backed insurer Cesce, during his trip to Europe next week, Reuters reported. He said the money would allow Petroperú to pay for the outstanding upgrades at its Talara refinery as well as to repair its four-decade-old oil pipeline, which remains shuttered after dozens of oil spills in the Amazon last year.

Canada's Renaissance Oil, Lukoil to Partner in Gulf of Mexico Project

Canadian oil company Renaissance Oil will purchase a 25 percent stake in the Petrolera company for \$1.75 million in partnership with Russia's Lukoil to develop the Amatitlán block in the Gulf of Mexico, Russian online news journal Construction reported Thursday. Petrolera is the operator for the project. Renaissance Oil will also buy another 12.5 percent from Marak and 25 percent from Lukoil, increasing its share in Petrolera to 62.5 percent, according to a statement from Renaissance Oil. Renaissance will take the lead role in the operations, Your Project News reported.

those that had been successful at the company's Liza discovery. "This important discovery further establishes the area as a significant exploration province," said Steve Greenlee, the president of ExxonMobil Exploration Company. ExxonMobil has also conducted appraisal drilling at Liza-3 and identified an additional deeper reservoir directly below the Liza field, which contains an estimated 100 million to 150 million barrels of oil equivalent. Drilling on Payara began on Nov. 12 and was conducted by ExxonMobil affiliate Esso Exploration and Production Guyana Limited.

The tender had registered 1,260 wind and solar projects, with a combined capacity of 35,147 megawatts.

Mexico Releases Manual to Promote PV Interconnection

Mexico's energy ministry has created an interconnection manual with the goal of increasing distributed generation and cutting down on bureaucracy for small-scale solar power, PV

Tech reported Thursday. The manual focuses specifically on smaller photovoltaic systems of less than 500 kilowatts with the goal of simplifying the process of interconnection. It also would lower the response to request time to a maximum of 18 days. Energy Secretary Pedro Joaquín Coldwell said he hopes the manual will help users take advantage of the declining costs of solar energy. The ministry also said that if enough solar panels are installed to reach the equivalent of 1 percent of the country's total generation capacity, Mexico could save as much as \$68.6 million per year and displace 1.9 metric tons of carbon emissions.

RENEWABLES NEWS

Brazilian State Officials Seeking Renewables Auctions

Officials from Brazil's northeastern states met with the country's minister of mines and energy to ask for new rounds of renewable energy auctions this year, SeeNews reported Wednesday. Energy Minister Fernando Coelho

Brazil's ministry of mines and energy canceled a wind and solar auction last month.

Filho said Tuesday during the meeting that the government is readjusting the renewable energy tender model, which had been created on the assumption that Brazil's economy would be growing at an annual rate of 4.5 percent. Brazil is currently in the second year of its worst recession in decades. According to the government of Pernambuco state, one of the five present at the meeting, the new model should be ready by March, with the possibility of a tender in the first half of the year. Last month, the ministry of mines and energy canceled the Dec. 19 wind and solar reserve energy auction.

FEATURED Q&A / Continued from page 1

credibility for potential investors. The increase in gasoline prices was a necessary signal for potential market entrants that the midstream and retail segments for clean products can be profitable. As the international oil market starts picking up and major players look to ramp up investment, Mexico has every incentive to continue with price liberalization so as to attract as big a slice of this capital as possible. Despite short-term political pain, the reform plan remains on track."

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

Debate: "Mexico's energy reform has lost all credibility in the eyes of ordinary Mexicans. They cannot reconcile the recent hike in gasoline prices with the promise of structural changes to benefit the people. The government blames global market prices for the hike, but the people see a corrupt government that is insensitive to them and has mismanaged public finances and state-run oil company Pemex. On the surface, it may seem that the gasoline market is being well implemented, with complex, but flexible, market-based pricing mechanisms in differentiated price zones. But there is a stiff excise tax on each liter sold to make up for lost oil-export revenue and pay debt and excesses in public spending. Also,

implementation should not be judged solely on technical terms, but also in view of the social impact, protests and violence. In that sense, it has been a disaster. It may be that the government will have to relent on the excise tax and cut back drastically on spending, bureaucracy and pandering to labor unions if the price of imported gasoline keeps rising. The government must be ruling the day it did not invest in Pemex refineries to produce more gasoline at home. Mexico is in the worst of both worlds now: the semi-functional Pemex monopoly has not really been dismantled yet, and market conditions have not yet taken root. Can private investment flourish under these conditions? Also, implementation of other aspects of energy reform should now come under severe scrutiny, as many energy projects are stalled due to social opposition and, despite apparently successful auctions of exploration blocks, there is no increase in oil output in sight."

A Luis Miguel Labardini, partner at *Marcos y Asociados Infraestructura y Energía:* "This year began with a sharp increase in the price of Mexican fuels and violent protests that in many cases became riots, affecting businesses and gasoline supply across the country. President Peña Nieto's government does not have an option. The

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POLITICAL NEWS

New Foreign Minister Reiterates Mexico Won't Pay for Wall

Mexico's new foreign minister, Luis Videgaray, reiterated Tuesday that the country will not pay for U.S. President-elect Donald Trump's proposed wall along the countries' shared border, Reuters reported. "There's no way that could happen," Videgaray said in televised remarks. "There are no circumstances...not even the best possible trade deal, investments, support which would justify taking a step that would violate the dignity of Mexicans to such an extent." Trump's campaign cornerstone was to build a massive multi-billion dollar wall along the southern U.S. border, and he has repeatedly vowed that he would force Mexico to pay for it, including last August when he returned to the United States after meeting with Mexican President Enrique Peña Nieto. Videgaray, who at the time was Mexico's finance minister, was instrumental in setting up that meeting, which was widely criticized in Mexico. Videgaray stepped down as finance minister a week later but Peña Nieto last week brought him back into his cabinet as foreign minister.

Venezuelan Agents Arrest Opposition Lawmaker

Agents of Venezuela's intelligence police on Wednesday arrested an opposition lawmaker on charges of trying to spur violence, The Wall Street Journal reported. Officers stopped Gilber Caro, who represents Miranda state, on a roadside as he traveled with his girlfriend and found an assault rifle and explosives in his vehicle, newly appointed Vice President Tareck El Aissami said in a televised address. "Lord knows what would have happened if we hadn't detained and neutralized this threat," said El Aissami. The vice president added that the arrest was among the first actions of an

ADVISOR Q&A

Is Latin America Taking on Too Much Debt?

Q **Bond issuance, including sovereign and corporate debt, in Latin America and the Caribbean reached \$117 billion in the first 10 months of 2016, \$37 billion more than for all of 2015, the United Nations Economic Commission for Latin America and the Caribbean said in a Dec. 2 report. Debt issued by Brazil and Argentina were among the drivers for the increase, according to ECLAC. What does the higher amount of bonds issued last year say about the health of the region's economies? Are the issuers of this debt at risk of becoming over-leveraged? Are governments and companies in the region taking on debt and spending money on projects that will translate into long-term growth?**

A **Jose E. Gonzales, managing partner at GCG Advisors:** "While 2016 was a year of adjustment in Latin America—the region contracted by less than 1 percent in GDP after 'zero' growth in 2015—increased bond issuance has proved that regional growth has been uneven, with Argentina, Brazil and Venezuela declining and Chile, Colombia, Mexico and Peru growing at a good pace. Also, economic reform has established stable macroeconomic dynamics that allow an expectation of regional recovery in 2017 with far less distortions than in the past, which

will allow for active debt markets at the sovereign and corporate levels. Additionally, the continuing 'zero rates' in developed markets have compressed debt yields, propelling and enticing 'yield seekers' to increase positions in emerging markets in general, including in Latin American markets like Brazil and Argentina. The former is perceived as a recovering economy with an improving political environment, and the latter an underleveraged one with its 'holdout' creditors problem solved. In both cases, as in most of Latin America except for Venezuela, sovereign solvency is not an issue since international reserves are at healthy levels, and GDP has expanded, allowing for increasing leverage. The usefulness of this renewed leverage will depend on continuing fiscal reforms, the development of domestic savings and investment markets, along with consumption and 'financiarización' on a macro level and prudence and healthy business practices at the corporate level. While corporate distress cannot be discarded ever, debt in the region seems to be exempt, for the time being, from a widespread 'bubble.' "

EDITOR'S NOTE: More [commentary](#) on this topic appeared in Monday's issue of the **daily Latin America Advisor**.

anti-coup command that he heads and added that Caro has a criminal record that includes prison time he served on murder and drug-trafficking charges. Caro could not be reached for comment, but his Popular Will party released a statement saying that he was returning from a family trip in the western part of the country when authorities stopped him and planted weapons in his vehicle. Two other activists

from the party were arrested in recent months under similar circumstances, Popular Will said. The party also accused the government of violating the immunity from arrest that protects sitting legislators. More than 200 of the party's activists have been detained since a wave of anti-government protests in early 2014, including its leader, Leopoldo López. Caro's arrest came a day after the country's opposition-con-

NEWS BRIEFS

Brazil Prison Director Dismissed Following Deadly Riot

The governor of Brazil's Amazonas state, José Melo, has suspended the director of the Anísio Jobim prison complex indefinitely, following the massacre of 56 prisoners at the complex on Jan. 1, Agência Brasil reported Tuesday. Melo called for the dismissal after it was disclosed that two inmates reported to the state court that prison directors were receiving money from gangs in exchange for allowing the entry of firearms, drugs and cell phones into the prison in the weeks leading up to the riot.

'All the Issues' on Table in U.S.-Mexico Relationship: Peña Nieto

Mexico will take a broad approach to its relationship with the incoming U.S. presidential administration of Donald Trump, President Enrique Peña Nieto told diplomats Wednesday in Mexico City, Reuters reported. "All the issues that define our bilateral relationship are on the table, including security, migration and trade," he said. Trump's tough rhetoric about Mexico has led to fears there of an economic shock.

Guatemalan President Expects Deeper Economic Ties With Taiwan

During a visit to Guatemala by Taiwanese President Tsai Ing-wen on Wednesday, Guatemalan President Jimmy Morales said he expected Taiwan to deepen economic ties in Central America, Reuters reported. The visit came at a time when China suspects Tsai may be seeking to formalize independence from China. "I'm sure that her administration will strengthen economic ties and cooperation in the region," Morales told reporters. Tsai also visited Honduras and Nicaragua this week during a trip that will include a stop in El Salvador.

trolled National Assembly approved a symbolic resolution declaring that President Nicolás Maduro had abandoned his duties. On Tuesday, Maduro began the final two years of his term as president, meaning that any successful recall effort against him would result in power being transferred to his vice president, rather than a new election being held.

Ortega Begins Third Consecutive Term as Nicaragua's President

Former guerrilla leader Daniel Ortega was sworn in for a new term as Nicaragua's president Tuesday. His wife, Rosario Murillo, became the new vice president. Ortega and Murillo were elected in November for his third consecutive term with nearly 73 percent of the vote, but with a high rate of abstentions and amid criticisms over centralization of power, the Associated Press reported. Their party holds 71 of the 92 seats in parliament. Newspaper La Prensa Tuesday called the elections a "farce" and criticized Ortega for "illegally eliminating" the opposition from the election.

ECONOMIC NEWS

Brazilian Central Bank Slashes Rate by 75 Basis Points

Brazil's central bank cut its benchmark interest rate more than expected on Wednesday, as the country's most severe recession in decades nears entering its third year, Reuters reported. The central bank's monetary policy committee voted unanimously to cut the Selic rate by 75 basis points to 13 percent, following two cuts in a row of 25 basis points each. Most analysts had projected the central bank would cut the interest rate by only 50 basis points. Following the announcement, the bank said it decided to enact a more aggressive cut in order to frontload the monetary easing amid a sluggish recovery and disinflation. "The extension of

the cycle and possible revisions of the pace of easing will continue to depend on inflation forecasts and expectations," the bank said, adding that economic recovery could take longer than expected. President Michel Temer expressed his "satisfaction" with the decision, according to the president's spokesman, Alexandre Parola, Bloomberg News reported. He said the interest rate cut "reinforces the president's conviction that the elements are in place for a recovery of economic growth and the creation of new jobs in the course of this year." Brazil's consumer prices rose 6.29 percent last year, as compared to a 10.67 percent increase in 2015, the national statistics institute said Wednesday. The inflation slowdown has been more widespread and sharper than expected.

Venezuela Hiking Minimum Wage 50%

The Venezuelan government announced Sunday that it will enact a 50 percent increase in the minimum wage and pensions in order "to combat inflation," BBC News reported. President Nicolás Maduro said the decision will help protect jobs and incomes, though critics say it will worsen Venezuela's already volatile economic crisis. Maduro said he is raising the monthly minimum wage to 40,000 bolívars—about \$60 at the highest official exchange rate or \$12 on the black market. The International Monetary Fund says Venezuela's inflation will reach 1,600 percent this year. The government's decision to increase the minimum wage is the fifth such increase this year and is aimed at benefiting government employees, the armed forces and pensioners. "In times of economic war and mafia attacks ... we must protect employment and workers' income," Maduro said. The embattled president's critics say his mismanagement of the oil-rich country's economy is largely to blame for the economic crisis and that a sustained drop in global oil prices has exacerbated the situation. Maduro has in the past accused the country's elite of sabotaging the economy for political gain. Venezuela's main business association said the increase in the minimum wage came without warning and could lead to layoffs and may force small businesses to close.

FEATURED Q&A / Continued from page 3

energy reform was voted as a constitutional transformation, and there is no going back, for now. The liberalization of gasoline prices

“**Mexicans might remember this moment when going to the election polls in 2018....”**

– Luis Miguel Labardini

will set the stage to attract much-needed investment in the midstream and downstream sectors of the oil and gas industry. Investors are now reassured that pipelines, storage facilities and ports will have a positive return in a country where refining has tradition-

ally been a losing business. However, the increase in fuel prices was the ‘drop that spilled the glass’ for an administration that has shown to be historically unpopular in Mexico, mainly due to corruption scandals. The riots will calm down, but Mexicans might remember this moment when going to the election polls in 2018, and tilt toward the ‘anti-systemic’ candidate, Andrés Manuel López Obrador, who has promised to submit the energy reform to a national referendum. Even though the energy reform can only be reverted through a complicated constitutional process that requires the approval of the federal as well as all state assemblies, the fate of the reform relies on the strength given by the Mexican people to the incoming president in the 2018 election.”

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

JOB POSTINGS

EDITOR’S NOTE: We are pleased to share Latin America-related job postings that readers of the Advisor and others have posted recently.

Shaw Industries: Regional Vice President, Latin America, Miami

FleishmanHillard: Corporate Supervisor, Latin America, Miami

AON: Director, Latin America Controller Operations, Chicago, Miami, Mexico

Subway: Director of Operations, Latin America, Miami

The Nature Conservancy: Director of Development, Latin America, Coral Gables, Fla.

U.S. Senate: Office of Sen. Bob Menendez, Foreign Relations Intern, Washington

World Bank: Research Analyst, Washington

Inter-American Dialogue: Director, Rule of Law Program; Director of Development and External Affairs, among others

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