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FEATURED Q&A

How Are Falling Oil Prices Affecting Latin America?



Global oil prices have fallen by approximately 30 percent since early October. // File Photo: Mexican Government.

Q Global oil prices dropped sharply last month, falling for a record 12 consecutive days. Venezuela has been desperate for a rise in prices as it struggles to keep oil production above one million barrels per day for the first time in decades. Meanwhile, interest in Brazil's oil resources has spiked, with international oil companies betting on strong investment conditions with a new government coming into office. In Mexico, the sweeping electoral victory of leftist Andrés Manuel López Obrador this year has given most energy sector investors pause, according to reports. What are the forces driving global oil prices, and how are they affecting stakeholders in Latin America and the Caribbean? What is the outlook for oil prices next year, and how are countries and companies in the region planning for 2019 amid fresh political and economic uncertainty?

A John Price, managing director of Americas Market Index: "Latin America's greatest economic threat comes from fracking and other technologies that have turned America's nimble oil patch into the global swing producer. Without cartel-like coordination, these hungry producers expand capacity every time pricing climbs above \$65/barrel, sending it back down to the \$45-55 range. Outside of Venezuela, most new Latin American oil capacity requires a steady floor price of \$70 to attract investment. Until leaders in Brazil, Mexico, Colombia and Argentina can make their economies more competitive by bringing down taxes, improving infrastructure and simplifying regulations, their promising new oil reserves will stay in the ground. To add insult to injury, the rapid conversion of the United States

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TODAY'S NEWS

POLITICAL

Nicaraguan Police Beat Journalists Following Raid

Police officers beat at least seven journalists following a raid on the offices of Nicaraguan newspaper Confidencial.

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ECONOMIC

Chile Selected to Host Next Year's U.N. Climate Conference

Chile was tapped to host the gathering after Brazil, the original host, withdrew.

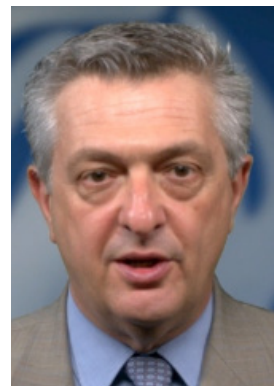
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POLITICAL

More Than 5 Mn Expected to Flee Venezuela by End of 2019: U.N.

The number of migrants fleeing political and economic chaos in Venezuela is expected to grow to five million by the end of next year, according to the United Nations. Filippo Grandi, the U.N. high commissioner for refugees, said it is vital to stabilize the situation.

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Grandi // File Photo: United Nations.

POLITICAL NEWS

More Than 5 Million Expected to Flee Venezuela by '19: U.N.

Some 5.3 million people are expected to flee Venezuela by the end of next year as the South American country continues facing political and economic crises, the United Nations predicted Friday, the Voice of America reported. More than three million people have already fled Venezuela since 2014, according to the United Nations. That number is likely to be an undercount, however, as government estimates frequently omit migrants that have no legal status, the Associated Press reported. The exodus has become the largest in the modern history of Latin America, the United Nations said. "It is now vital that we stabilize the dire humanitarian situation affecting the millions of Venezuelans seeking protection and shelter across the continent," said Filippo Grandi, the U.N. high commissioner for refugees, the AP reported. Colombia is receiving the highest number of Venezuelan migrants, with 2.2 million expected there by December of next year. Peru is expected to receive the second-highest number of refugees, with almost 1.4 million by the end of 2019. Ecuador, Brazil, South America's Southern Cone, the Caribbean and Central America are also projected to see increases in the number of Venezuelan migrants. "Beyond the most immediate humanitarian impacts of the largest displacement of people in the history of Latin America, there are other quite complex implications for which we were not prepared as a region," Eduardo Stein, a former Guatemalan vice president and the United Nations' joint special representative for Venezuelan refugees and migrants, wrote in a report. When Venezuelan migrants arrive at their destinations, they often must sleep in crowded conditions with other migrants and struggle to find food, health care and education for their children, the AP reported. The United Nations refugee agency and the International Organization for Migration has worked on a joint plan that includes 95 organizations in 16

countries and focuses on areas including direct emergency assistance and protection, as well as cultural and socioeconomic integration of migrants, in addition to bolstering the ability of countries to receive them. The organizations are seeking \$738 million from donors, including international financial institutions, to support the plan. Also, during a recent meeting in Ecuador, countries across the region vowed to jointly respond to the migration crisis with initiatives including a streamlined process through which migrants can formalize their legal status, the AP reported. [Editor's note: See [Q&A](#) on the Venezuelan migration crisis in the Nov. 19 issue of the Advisor.]

Nicaraguan Police Beat Journalists Following Raid

Nicaraguan police on Saturday beat at least seven journalists with batons, amid a government crackdown on independent media in the country following months of citizen protests against President Daniel Ortega's government, Reuters reported. After dozens of policemen raided the offices of a leading Nicaraguan



They kicked me in the leg, trying to knock me down."

— Néstor Arce

news outlet, Confidencial, around midnight last Thursday, taking computers, laptops and documents, editor Carlos Fernando Chamorro and other journalists on Saturday gathered outside police headquarters in Managua demanding information on what Chamorro called the illegal raid on his offices. Following his requests, policemen in anti-riot gear kicked and beat Chamorro and his colleagues with batons. "Three officers beat me," said Néstor Arce, a journalist at Confidencial, told Reuters. "They kicked me in the leg, trying to knock me down." In an interview after the raids, Chamorro had

NEWS BRIEFS

Chile Selected to Host Next Year's U.N. Climate Change Conference

Chile on Friday was named the host of next year's United Nations climate conference, Reuters reported. The announcement was made on the final day of this year's U.N. climate change conference in Poland. Brazil backed out from organizing next year's conference several weeks ago, reportedly amid pressure by President-elect Jair Bolsonaro to withdraw. Costa Rica's government plans to work with Chile to organize the event and plans to host a pre-conference earlier in the year. [Editor's note: See related [Q&A](#) in last week's Energy Advisor.]

Colombian Court Fines Odebrecht Consortium \$250 Million

A Colombian court on Friday fined a consortium led by embattled Brazilian construction conglomerate Odebrecht \$250 million and prohibited it from receiving any government contracts for 10 years, Reuters reported. In 2016, the Brazilian company acknowledged that it bribed officials in several countries. That reportedly included \$30 million paid in Colombia.

Colombian Gov't Agrees to Boost Education Funding by \$1.4 Billion

Colombian President Iván Duque announced on Friday that his government had reached an agreement with students to boost education spending by 4.5 trillion pesos (\$1.4 billion) over the next four years, the Associated Press reported. The announcement came after months of protests, with thousands of students demanding increases to public higher education funds. Student leader José Cárdenas called the agreement an "historic accord" and "a victory for education and for Colombia," the AP reported.

called police officers' actions "a brutal assault against independent media and the right of freedom of speech, but also a burglary by police that have been turned into a criminal gang by their boss, dictator Daniel Ortega," The Wall Street Journal reported. More than 300 people have been killed, and 500 others have been incarcerated since protests against Ortega broke out in April, according to the Nicaraguan Center for Human Rights, or Cenidh, a group that the government blacklisted last week, Reuters reported. Ortega has called the protests an attempted coup d'état. His government did not respond to Reuters' request for comment.

ECONOMIC NEWS

Mexico's López Obrador Launches Railway Project

Mexican President Andrés Manuel López Obrador on Sunday launched the construction of the so-called Mayan Train, a 1,500-kilometer railway that is to connect five states across the Yucatán Peninsula in southern Mexico, *Expansión* reported. López Obrador called the infrastructure project an "act of justice," as it seeks to bring jobs, investment and tourism to "the country's most abandoned region," he



López Obrador // File Photo: Mexican Government.

said at the event. Besides activating the area's economy, another key objective of the project is to help stem migration to the United States. The government's initial investment, included in the 2019 budget that Congress must first approve, is of six billion pesos, roughly \$295 million. "But that's not enough, and that's why

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from a natural gas importer to a massive exporter threatens the gas-driven economies of Trinidad and Tobago and Peru and further dampens enthusiasm for Venezuelan and Colombian oil, which is rich in gas. The specter of long-term weak energy pricing and aging oil fields may have a silver lining. It is only in times of economic hardship that the squabbling political class gets its act together and passes modernizing reforms. Such a scenario seems within grasp in Brasília for the first time in 20 years and may keep Argentina on a reform path in spite of next year's elections. Low oil prices may also keep López Obrador's penchant for bold project spending in check and convince governments across the region to invite more private investment in infrastructure. Cheap energy also provides welcome relief to Caribbean and Central American economies. There are many reasons to cheer on U.S. fracking."

A **Edward L. Morse, managing director and global head of commodity research at Citigroup:** "Oil producing companies and governments are rapidly adjusting to an era of price volatility, as both expectations and investment decisions are becoming increasingly inured to price swings of \$20 a barrel or more. These occur not just annually, but over short periods of time. In fact, the price of Brent was \$80 in July, \$71 in August, \$86 in September and less than \$65 in mid-November. Three factors loom large in these swings. First is that the ability of OPEC alone to defend a price floor has deteriorated dramatically—OPEC had 35 million of barrels per day (bpd) of capacity in 1980 when the world produced 65 million bpd; but it also

we need to mix resources [and] private investment," he said, adding that each section of the railway would cost between 15 billion pesos and 18 billion pesos, Reuters reported. The government aims to put out tenders for the first four sections by mid-February. To encourage investment, López Obrador said participating

has the same level of capacity in 2018 when the world is producing more than 100 million bpd. Even in cooperating with Russia on its 11.4 million bpd of production provides less clout given the dramatic rise in domestic production in oil producing countries. Second, the shale revolution has proven capable

“The ability of OPEC alone to defend a price floor has deteriorated dramatically.”

— Edward L. Morse

of adding more supply than demand once prices reach a level that is sharply lower than what is required to service. The harder OPEC+ tries to rein in inventories, the higher the price and the more incentive to produce oil from shale and other unconventional oils. Third, OPEC has run out of spare capacity, which means that while demand hits the limits of supply, prices jump and rebound sharply from new peaks. Latin America has new opportunities but also new problems as a result. Given that cost structures have fallen, the attraction of lower cost supplies in Argentina, Brazil, Mexico and elsewhere should continue to attract more capital to increase supply even at lower and more volatile prices. In true petro-states, such as Venezuela, production will decline until governments find a way to induce more capital spending. The oil price outline for 2019 should remain weak even if OPEC+ acts to cut output—demand is weakening with decel-

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companies would receive a government subsidy for every kilometer of track laid down. López Obrador added that he hopes the project will be finalized within four years, with investment estimated to total 150 billion pesos. Fifteen stops are planned for the railway, which would operate cargo, tourist and passenger trains.

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erating economic growth and supply looks abundant. Even so, governments are trying to attract global investment and companies are positioning themselves for greater growth everywhere they can."

A David Shields, independent energy consultant based in Mexico City: "Oil now contributes much less to the Latin American economy overall than it did a decade ago, especially due to the collapse in output in Venezuela and a lesser but significant drop in Mexico's production. At the same time, the shale boom means that the U.S. economy is no longer so reliant on major crude imports from these two countries. In Mexico, lower oil prices will put pressure on federal spending in 2019, when López Obrador hopes to start new social welfare programs and would also like to invest in boosting oil output and in building a new refinery, a personal pet project whose economic logic is not clear to most observers. Markets will be looking for prudent spending forecasts that can prop up shaky investor confidence in the Mexican economy. Energy investors have been uneasy ever since López Obrador suggested he might review or cancel the E&P contracts

awarded to global firms under recent energy reforms. He has, however, reluctantly backed down on this, and the contracts will move forward, but perhaps not with the same enthusiasm from investors. His incomprehensible prohibition of fracking has also

“Oil now contributes much less to the Latin American economy overall than it did a decade ago...”

— David Shields

sent a negative signal. An inward-looking energy policy is foreseen, emphasizing greater domestic refinery output as the key to achieving self-sufficiency in fuels, with Mexico no longer importing gasoline nor exporting crude a few years from now. But that looks more like a pipe dream than future reality. With interest rates expected to move up, the Mexican economy will face a more complicated panorama in the short to medium term."

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Japan's Latest Moves in LAC: Reshaping the Partnership

An Inter-American Dialogue Discussion with Takahiro Nakamae, Ministry of Foreign Affairs of Japan

Mireya Solis, Brookings Institution
Kotaro Horisaka, Sophia University
and others

View a webcast of the Dec. 11 discussion.

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