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FEATURED Q&A

Is AMLO Turning his Back on Mexico's Renewables Sector?

The Mexican government canceled the country's fourth auction for long-term renewable energy projects due to technical, economic and planning issues, officials said. // File Photo: Mexican Government.

Q The government of Mexican President Andrés Manuel López Obrador in February canceled the country's fourth auction for long-term renewable energy projects. What are the reasons behind the cancellation, and what implications does it have for the country's renewable energy sector? To what extent does it reflect the administration's willingness to work with the private sector and international investors? Is the Mexican government likely to hold another renewables tender in the near future?

A Jorge Landa, director of Renewable Energy Development (RENERGYD) in Mexico: "In my point of view, the main reason behind the cancellation is the disadvantage the CFE faced vis-à-vis private companies, given the difference in efficiency and production costs. This, given the current government's new energy policy—to strengthen state companies—meant weakening the CFE, dooming it to lose competitiveness in the wholesale electrical market and leaving it to operate only as a basic services provider, without the opportunity to achieve greater participation in the market and the income this may produce. Reverting the process of opening the market to the private sector through the auction mechanism will bring lower investment in the electricity sector and create fewer jobs, assuming that strengthening the CFE is implemented well (mainly by increasing its productivity, efficiency and electric generation, but with very limited funds). For any government, auctions represent the cheapest mechanism to create more installed electric capacity of clean energy. Using private funds would mean the CFE would not need to spend the country's limited resources. The adminis-

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TOP NEWS

OIL & GAS

Mexico Freezes New Joint Venture Deals With Pemex

Mexican President Andrés Manuel López Obrador's government is holding off any new joint venture contracts between private companies and state oil firm Pemex.

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OIL & GAS

Ecopetrol Reports Higher Profits

The Colombian state oil company announced a net profit of 11.55 trillion pesos ($3.72 billion) for 2018, its highest level in five years and a 74.6 percent increase from 2017.

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RENEWABLES

Costa Rica Plans to 'Decarbonize' the Country by 2050

Costa Rican President Carlos Alvarado launched a new national plan that seeks to achieve "zero net emissions" by 2050, meaning the country would produce no more emissions than it is able to offset through measures such as expanding its forests. Alvarado hopes the plan will inspire others.

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Alvarado // Photo: @carlosalvq via Twitter.

OIL AND GAS NEWS

Millions of Dollars Worth of Oil Stuck Offshore Venezuela

Venezuela is running out of storage space for the crude oil it has produced but hasn't been able to sell since the United States imposed sanctions targeting its oil sector in January, Bloomberg News reported Monday. Tankers holding 8.36 million barrels of crude, worth more than half a billion dollars, are sitting off Venezuela's shore with nowhere to go. Among them, 16 ships hold cargoes belonging to state oil company PDVSA, Chevron, Valero Energy and Russian's Rosneft, according to shipping reports and ship-tracking data compiled by Bloomberg. The standstill has forced the South American nation to reduce output. PDVSA's ventures with Rosneft and Chevron, as well as with France's Total and Norway-based Equinor, this week reduced the rate of crude they process as they ran out of storage space, Bloomberg News reported, citing sources with knowledge of the matter. Meanwhile, PDVSA's U.S.-based refiner, Citgo, is reportedly cutting ties with its parent company to comply with U.S. sanctions, Reuters reported Tuesday, citing two sources close to the decision. Executives at the Houston-based firm had reportedly set Tuesday as the deadline to end relationships with PDVSA. Citgo has reportedly halted payments to the Venezuelan state firm, as well as subscriptions to corporate services and email communications, according to the wire service. A Citgo spokeswoman did not respond to Reuters' requests for comment.

Mexico Freezes Joint Venture Contracts With State Oil Firm

Mexican President Andrés Manuel López Obrador is holding off signing any new joint venture contracts with state oil company Pemex, Bloomberg News reported last week. "What is already agreed will continue on course," Pemex Chief Executive Octavio Romero said during one of the president's press conferences. The state firm will focus on developing service contracts in the oilfield instead of the so-called farm-out deals, in which private energy companies would get a stake in exchange for helping Pemex develop an oil area. "Pemex alone can't deliver all of Mexico's production needs from a financial or operational standpoint," Pablo Medina, vice president of Welligence Energy Analytics in Houston, told Bloomberg News. "Given its stretched finances, it would be wise to leverage its limited capital through partnerships." Pemex currently holds approximately $107 billion in debt, making it the world's most indebted oil firm. The state company has reported declining production for 14 consecutive years. In January, Pemex produced 1.62 million barrels of crude per day (bpd), the lowest monthly figure in almost three decades, the state company said last Friday, Reuters reported. In 2018, Pemex's crude production averaged 1.81 million bpd. The company's oil exports also dropped in January to 1.07 million bpd, down nearly 10 percent from last year's average shipments of 1.18 million bpd. López Obrador has promised to strengthen to national company, recently announcing an aid package that includes increasing tax breaks for Pemex and boosted investment. The president has promised to help the company grow its production to around 2.5 million bpd by the end of his six-year term in 2024.

Ecuador's Main Refinery to Partially Suspend Operations

Esmeralda, Ecuador's main refinery, will partially put operations on hold for at least 54 days starting on Friday for scheduled maintenance of several units, state oil company Petroecuador said Monday, El Comercio reported. The suspension, which had been originally scheduled for last year after serious technical issues, will cut the refinery's production by half. The facility has the capacity to refine a total of 110,000 barrels of crude per day (bpd). "The

NEWS BRIEFS

Colombia's Ecopetrol Reports Higher Net Profit

Colombian state oil company Ecopetrol on Tuesday announced a net profit of 11.55 trillion pesos ($3.72 billion) for 2018, its highest level in five years and a 74.6 percent increase from 2017. "Despite attacks and operational events, we met the production goal of 720,000 barrels" per day of oil equivalent, Ecopetrol said. The company's profit soared last year as a result of "capital discipline and an efficiency plan," Chief Executive Officer Felipe Bayón told regulators, Reuters reported.

Greenpeace Targets Shale Production in Argentina

More than 40 activists of Greenpeace Argentina on Tuesday blocked access to a waste site used by companies that extract oil and gas from the country's Vaca Muerta shale formation, the environmental group said in a statement. Shell, Total, YPF and other companies use the site to dispose of waste from fracking in Vaca Muerta, Greenpeace said, adding that nearby agricultural fields and the Neuquén River could be contaminated by the waste. YPF told Reuters that the protest did not affect its facilities or activities.

Brazilian Oil Regulator Launches Probe Into Petrobras Offshore Spill

Brazil's oil regulator announced Monday that it has launched an investigation into an offshore oil spill at a platform of state oil company Petrobras, Reuters reported. Approximately 188 cubic meters of oil leaked from the company's P-38 platform, which is located about 80 kilometers off the coast of Espírito Santo State, in the Campos basin. The leak, which occurred last Saturday while oil was being transferred from the offshore platform to a tanker, was blamed on a hose failure, the wire service reported.

refinery will not paralyze all its operations," the company said, Reuters reported. "It will continue processing as much as 55,000 barrels of crude per day," it added. The project will repair six of the processing plant's 14 units. The crude that is not processed amid the partial suspension of operations will be put on the market at "sale spots," Petroecuador authorities have said, adding that it will import diesel, naphtha and liquefied petroleum gas, or LPG, to meet domestic demand. The maintenance program will cost $18 million, but the refining plant may need additional structural changes that could require investments of more than $172 million, according to a report by President Lenín Moreno's government. The refinery functioned at 88 percent capacity last year, processing an average of 96,695 bpd. In related news, Energy Minister Carlos Pérez said Tuesday that Ecuador had asked the Organization of the Petroleum Exporting Countries, or OPEC, for permission to increase its crude production beyond its established quota of 508,000 bpd, Reuters reported. The Andean country wants to produce at least an average of 530,000 bpd this year, he added.

RENEWABLES NEWS

Costa Rica Plans to 'Decarbonize' the Country by 2050

Costa Rican President Carlos Alvarado on Sunday launched a new national plan to decarbonize the country by 2050, meaning it would have "zero net emissions," producing no more emissions than it is able to offset through measures such as expanding its forests. "Decarbonization is the great task of our generation, and Costa Rica must be among the first countries to achieve it, if not the first," Alvarado said in launching the plan. Alvarado's office said in a statement that the Central American nation will exceed typical standards in its efforts to "become a modern, green, emission-free, resilient and inclusive economy where human rights and gender equity are respected." Cuts in emissions, which several countries are expected to attempt to achieve in the second half of this century, are seen as critical to keeping global temperature changes to below two degrees Celsius, the goal set out in the 2015 Paris Agreement on climate change, Reuters reported. Some of Costa Rica's goals may be difficult to achieve, such as using electricity to power all of the country's buses and taxis by 2050, Jairo Quirós, an electrical energy researcher at the University of Costa Rica, told Reuters. "Although one tends to see that [electric bus] prices are falling over time, there is a lot of uncertainty regarding that," said Quirós. He added that the government's plan will be a challenge to put into practice and "should be viewed with some caution." In outlining the plan, Alvarado said Costa Rica could become a model for other countries. "We can be that example… we have to inspire people," said Alvarado, adding that the country is "doing what's right." Christiana Figueres, a Costa Rican and former United Nations climate chief, called the country's objectives "unprecedented." Only the Marshall Islands has had a similar plan, but "they still do not have the whole plan articulated sector by sector," Figueres told the wire service.

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tration is willing and interested in working with the private sector, but apparently not in this strategic subsector, given that income as it stood before the fourth auction did not bring benefits for the country, although it did for private foreign companies. The Mexican government will possibly hold another renewables tender in the near future, if it finds a mechanism to strengthen the CFE's productivity and efficiency and give it access to income and profits, which it has lacked for several years. If such a framework—of mixed participation—could be found, then perhaps this new policy may be partially reversed."

A **Héctor Castro Vizcarra, former representative of the Mexican Energy Secretariat in North America and non-resident senior fellow of the Energy, Climate Change & Extractive Industries program at the Inter-American Dialogue:** "There is a common agreement on several fronts: having affordable tariffs; transparency in the process while avoiding corruption; and moving toward a more environmentally friendly grid and combating climate change. Beyond any ideological beliefs, those goals can be met with the current legal framework. The global trends in the power sector are not based on politics or ideology but on technology advances, market trends and best practices. More than 70 countries are currently using auctions. The Mexican president has said that the energy reform has been a disaster. Most likely, I do not see him changing his opinion. The irony is that we are facing something very similar to what we saw when President Trump ran for office and the time he has been in office. We heard the rhetoric of how bad he thought the North America Free Trade Agreement, or NAFTA, was; the 'America first' philosophy; and the 'energy dominance' era. NAFTA changed to the USMCA. There's a possible, similar way out for Mexico's energy sector. Change the title, keep the mechanisms that work. We all agree on the analysis and goals. How to make it successful in the 'Mexico first' era, with a 'let's produce what we consume' philosophy, is the question. Aligning the AMLO administration's rhetoric of avoiding dependency—and its need for a win on this—with finding a feasible and accountable way of engaging with the private sector is the challenge."

A **Patricia Tatto, director for Mexico and Central America and partner at Ata Renewables:** "According to the official statement, the auction was canceled due to technical, economic and planning issues, but these reasons are still uncertain. The cancellation coincided with government plans to increase Mexico's dependence on oil and gas sources and hydroelectric power. The global renewable energy industry considers

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POLITICAL NEWS

Democrats in U.S. Congress Defend IACHR Funding

Leading Democrats in the U.S. Congress on Tuesday called on Secretary of State Mike Pompeo to maintain "robust funding" for the Inter-American Commission on Human Rights, or IACHR, in response to reports that the administration of President Donald Trump is considering withdrawing public funds for the commission. "Cutting or eliminating funding for the commission at this crucial moment would derail its crucial human rights monitoring processes in countries like Nicaragua and Venezuela," wrote the lawmakers. "The United States cannot take a back seat when it comes to human rights violations in our own neighborhood." The letter was initiated by Rep. Eliot L. Engel (N.Y.), Rep. Albio Sires (N.J.), Sen. Bob Menendez (N.J.) and Sen. Ben Cardin (Md.). In December, nine Republican U.S. senators—including several seen to have considerable sway with the Trump administration, such as Ted Cruz (Tex.)—sent a letter to Pompeo demanding an end to U.S. funding to the IACHR. They say the group has promoted abortion policies in Latin America, in violation of the Siljander amendment to the Foreign Assistance and Related Programs Appropriations Act of 1981, according to a copy of the letter posted online.

Ortega Releases Prisoners Ahead of Opposition Talks

Nicaragua's government on Wednesday released dozens of people arrested during last year's anti-government protests, a move that came just hours before talks began between President Daniel Ortega's government and opposition members, El Nuevo Diario reported. The closed-door talks have restarted after being stalled for seven months. Human rights groups estimate that at least 770 people have been arrested in connection with the protests that erupted in the Central American country last April after Ortega's government tried to reform the pension system. The government backed off the pension overhaul, but the protests morphed into demands for the resignation of Ortega, who has been president since 2007. Multiple vans carrying the released inmates left Managua's Modelo prison on Wednesday, though it was not clear how many were freed, the Associated Press reported. Some of the people released waved small Nicaraguan flags as they returned to their homes. In the wake of the protests that began

ADVISOR Q&A

Can South America Capitalize on Its Lithium Reserves?

Q Bolivia announced a major lithium deal on Feb. 6, picking China's Xinjiang TBEA group to take a 49 percent stake in a $2.3 billion lithium project with YLB, the state lithium company. Meanwhile, a delegation from a consortium of Indian state-owned companies recently visited South America's "lithium triangle" spanning Chile, Argentina and Bolivia to explore opportunities in exploiting the resource, which is expected to be in increasingly high demand for uses such as electric vehicle batteries. Lithium investment was also reportedly on the agenda when Argentine President Mauricio Macri visited India this month. How well are the South American countries engaging international investors in their lithium development strategies? Are there ways the three nations could collaborate on the metal's development as opposed to competing? Which global players are best positioned to gain the upper hand in exploiting South America's lithium deposits?

A William Tahil, research director at Meridian International Research: "China's rise to dominance of the entire lithium battery supply chain has been unrelenting. The list of takeovers and investments is unending. Everywhere there's lithium, there's China. China's ambassador to Bolivia said at the signing of the TBEA agreement that China will need 800,000 metric tons of lithium (carbonate) per year by 2025 for its car industry—roughly four times current global production. CATL and BYD are now the number two and three battery manufacturers in the world, and they're expanding continuously. Following the TBEA announcement, Tianqi recently finalized a 25 percent stake in SQM for $4.1 billion. This gives China access to the highest-quality deposit in the world, Salar de Atacama. Ganfeng went from zero in 2014 to 25 percent global market share for battery grade lithium hydroxide and nearly 20 percent of the lithium carbonate. How can other countries such as India possibly catch up against the strategic onslaught of China Inc.? For China, lithium is but one small tranche of the global 'Belt and Road' program. In terms of collaboration between Argentina, Chile and Bolivia, a de facto lithium 'OPEC' may well be foreseeable—all in Chinese hands—as OLEC, or the Organization of Lithium Exports to China. Half of the worldwide investment in electric vehicles by the automotive industry is for China alone. If the rest of the world wants to have access to significant numbers of electric vehicles at all in 2030, alternatives to lithium need to be prioritized."

EDITOR'S NOTE: More commentary on this topic appears in Wednesday's issue of the Latin America Advisor.

NEWS BRIEFS

Argentina to Provide $2.6 Billion in Loans to Small Businesses

Argentine President Mauricio Macri announced Wednesday that his government will provide loans totaling $2.6 billion to the private sector, Reuters reported. The country's small- and medium-sized enterprises have been particularly hard-hit amid the country's high rate of inflation and currency crisis. Argentina's benchmark interest rates, which are currently hovering around 50 percent, have also kept many small businesses from seeking loans. The country's economic activity declined 7 percent in December, according to official data that was released on Wednesday.

Europe Pressures Jamaica Over Death Penalty Policy

Europe has threatened to step up pressure on Jamaica for its retention of the death penalty, The Jamaica Gleaner reported Wednesday. The topic remains high on bilateral and multilateral agendas, Pavel Telička, the vice president of the European Parliament said. Jamaica has not executed a convict in more than 30 years, but it has kept the death penalty law on the books, as have some other Caribbean nations. Jamaica also voted against the last United Nations General Assembly resolution calling for the universal suspension of the death penalty.

Peru Expects Ag Benefits From India Trade Deal

Peruvian Foreign Trade and Tourism Minister Edgar Vásquez said on Wednesday that his country's agro-business sector will be the first to benefit from a Peru-India Free Trade Agreement (FTA) currently being negotiated. India is one of the largest consumers of legumes in the world, he noted, positioning Peruvian beans and chickpeas well. "India is the only big and dynamic market with which we do not have a trade accord," Vásquez said.

last year, Ortega's government has virtually banned demonstrations and also cracked down on media outlets, the AP reported. At least 325 people were killed during the demonstrations, while some 2,000 were wounded and hundreds more imprisoned. The talks between government representatives and the opposition began at a business institute south of Managua. Journalists were not allowed access to the encounter, which did not include Ortega. The government's side was represented by the country's foreign minister, a student leader and several legislators. The opposition was represented by several business leaders, a politician, an academic and a university student. The Vatican ambassador to Nicaragua and Managua's Roman Catholic cardinal attended as observers. Among the main demands of the opposition is the release of all 770-plus people it considers to be political prisoners.

Venezuelan Border Restrictions Tighten as Both Sides Dig in

Venezuelan authorities on Wednesday blockaded a second bridge to Colombia amid fresh skirmishes between opposition-led protesters and security forces loyal to President Nicolás Maduro, The Guardian reported. Two shipping containers were positioned across the Simón Bolívar bridge, a major pedestrian crossing between the two countries, following sporadic violence. Despite the blockade, U.S. President Donald Trump said international humanitarian supplies are getting across the border, the Associated Press reported. "We're sending supplies, supplies are getting through a little bit more. It's not easy," Trump said during a press conference Wednesday. "We're getting them into some of the cities and some of the areas that need them the most. It's very difficult, not an easy job," Trump added. The move came as opposition leader Juan Guaidó, who has been recognized internationally as the interim constitutional president, announced plans to travel to Brazil to shore up international support for his cause. Guaidó was scheduled to arrive Wednesday night in Brasília for a two-day visit from Bogotá, where he attended a meeting with U.S. Vice President Mike Pence and the regional Lima Group this week to discuss how to resolve the political and economic crisis in Venezuela, Reuters reported. "The interim president of Venezuela will meet on Thursday afternoon with Brazilian President Jair Bolsonaro at the Planalto Palace," said María Teresa Belandria, appointed by Guaidó as his ambassador to Brazil and recognized as such by the far-right Bolsonaro government. Meanwhile, Maduro's vice president, Delcy Rodríguez, will travel to Moscow for talks with Russian Foreign Minister Sergei Lavrov on Friday, according to the report.

ECONOMIC NEWS

Brazil Senate Gives Nod to Campos Neto as Central Bank Chief

Brazil's Senate on Tuesday night approved Roberto Campos Neto as the country's new central bank chief, Globo reported. President Jair Bolsonaro's nominee to head the central bank won the chamber's confirmation in a vote of 55 to 6, with one abstention. During his confirmation hearing, Campos Neto told senators that he backed Bolsonaro's plan to shrink the size of the federal government and also defended the autonomy of the central bank. He added that Brazil's banking system is no more "concentrated" than those of other developed countries, noting that Brazil's banks are competitive. Campos Neto has also said the country needs fiscal discipline and must control inflation, Bloomberg News reported. During the confirmation hearing, Campos Neto said Brazil should continue opening capital markets to both domestic and foreign investors, Reuters reported. Campos Neto's grandfather was an economist and, as Brazil's planning minister in 1964, signed the decree to create the central bank. The future bank chief has indicated that he will not significantly change the country's monetary policy and has echoed the bank's current position that decisions should be based on "caution, serenity and perseverance," Reuters reported.

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the cancellation as negative for Mexico's electricity market. Electricity auctions are effective mechanisms to help reduce electricity costs and move toward clean energy, which has a huge effect on people's health and the environment. Projects already built bring social and economic benefits to our communities, generate employment and value chains at the regional level, and make Mexico one of the main destinations of foreign direct investment in the renewables sector. Electricity auctions also allow countries to advance international goals. At the COP-21 meeting, Mexico assumed the obligation of producing 35 percent clean energy by 2024 and mitigating carbon emissions by 22 percent by 2030. We must hurry up and continue work between the private and public sectors to reach these targets. The construction risk and finance risk would have been fully covered by the auction's winners, giving the government the possibility of expanding our energy matrix easily with the help of private stakeholders and less government investment. It seemed like a no-brainer. Moody's said the cancellation of the fourth renewable energy auction is a negative development for the sector's credit profile and raises doubts about the government's commitment toward facilitating private investment in energy projects.

> **The administration should study the positive effects of electricity auctions as catalysts for better infrastructure, low electricity prices and energy security.**
>
> — Patricia Tatto

The administration should study the positive effects of electricity auctions as catalysts for better infrastructure, low electricity prices and energy security. Mexico should continue with clean energy auctions, which could generate more than 200,000 direct and indirect job and investments of $57.8 billion over the next 15 years. However, the market is not only auctions. For now, we still have the private PPAs market, which has become another tool for industrial and commercial consumers, allowing diversification in terms of purchase terms and exposure to market price. It also allows projects to be financed through equity and spot market risk—another financial solution to develop renewables projects around the world."

A **Dino Barajas, partner with Akin Gump:** "The cancellation of the latest long-term renewable energy auction, although a temporary setback for the momentum of renewable energy development in Mexico, will hopefully just be a minor reset moment for the market. The AMLO administration has been vocal about the need to assess the prior administration's sweeping energy reforms and Mexico's overall energy landscape. Given the extremely low pricing of the past renewable energy auctions and Mexico's desire to become more energy-independent, I would expect the AMLO administration to fully embrace the further development of renewable energy projects, which harness Mexico's natural resources and make it less dependent on imported hydrocarbons. Additionally, it would be a shame to lose the momentum that Mexico has built to become one of the leading countries in renewable energy development globally."

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

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