LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Monday, April 29, 2019

FEATURED Q&A

Will Gov't Aid Get Pemex's Finances Back on Track?

Mexican Finance Minister Carlos Urzúa said this month that the country's government will help pay part of Pemex's debt through the use of a stabilization fund. // File Photo: Mexican Government.

Q Mexico's government will offer Pemex a one-year lifeline by using part of its $15.3 billion budget stabilization fund to relieve some of the state oil company's $107 billion in debt, Finance Minister Carlos Urzúa said April 12.The move follows President Andrés Manuel López Obrador's announced plan to bolster Pemex's finances, which includes an injection of $5.2 billion as well as tax breaks, El Universal reported. Is the government approaching Pemex's debt obligations in the best way possible? What measures should López Obrador implement now to restore the state company's stability in the long term? To what extent is Pemex's financial crisis affecting Mexico's oil and gas sector and the country's economy more broadly?

A Pedro Niembro, senior director at Monarch Global Strategies: "For the third time in his four months in office, President López Obrador has announced new measures to help Pemex deal with its financial and production problems. The proposal to use the stabilization fund is like a band-aid on a gunshot wound; it addresses the state-owned productive enterprise's immediate debt obligations, but it is not a sustainable option for addressing the complex situation that Pemex finds itself in. For Pemex to have any chance of meeting the government's ambitious production targets and succeed in the long run, it will need to conduct itself like a major oil company by being allowed to make decisions based on what makes the best economic and technical sense. This includes the ability to work with partners who can bring capital and expertise to projects, which can be structured to maintain Mexico's sovereignty over its natural resources. Even in areas that

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Guaidó's Envoys Discuss Seeking Support From China, Russia

Ambassadors named by Venezuelan opposition leader Juan Guaidó, who is internationally recognized as the country's president, met to discuss seeking support from China and Russia.

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Petrobras Plans to Raise $20 Billion in Refinery Sales

The Brazilian state oil company plans to sell eight refineries, including the recently built Abreu e Lima unit in Pernambuco State.

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Ex-Peruvian Leader Kuczynski Has Emergency Heart Surgery

Former Peruvian President Pedro Pablo Kuczynski, who has been accused in the Odebrecht corruption scandal, underwent emergency heart surgery.

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Kuczynski // File Photo: TV Perú.

POLITICAL NEWS

Guaidó's Envoys Meet to Discuss Support From China, Russia

More than a dozen ambassadors named by Venezuelan National Assembly leader Juan Guaidó, whom dozens of countries recognize as Venezuela's legitimate president, met Saturday in Bogotá to discuss how to gain the support of China and Russia, Reuters reported. The ambassadors' plan is an effort to convince China and Russia, staunch allies of Venezuelan President Nicolás Maduro, to back Guaidó, said former Venezuelan National Assembly President Julio Borges, who currently lives in Colombia. "The strategy means to bring countries like Russia and China closer to being part of the solution," said Borges. "Today we are meeting to articulate strategies to gain more support for the democratic cause in Venezuela and to have close contacts with countries that can become part of the solution and not part of the problem," Borges added, EFE reported. The opposition is making progress, and it is a matter of time before Maduro steps down, former Colombian Foreign Minister Carlos Holmes Trujillo told reporters, according to Reuters. "We have a dynamic vision of what's happening, we see this as an irreversible process, the end of usurpation and the end of tyranny," he said. "Dictatorships never fall overnight. The Berlin Wall did not fall overnight ... Sooner rather than later the time will come when the dictatorship falls." Maduro still has the support of the leadership of Venezuela's military and a portion of the country's population, which has been beset by numerous economic problems, including shortages of food, medicine and other basic goods and hyperinflation, which the International Monetary Fund said last October could reach 10 million percent by the end of this year. [Editor's note: See related **Q&A** in the Feb. 21 issue of the Advisor.]

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> **— Julio Borges**

Pope Francis Donates $500,000 to Aid Migrants in Mexico

Pope Francis has donated $500,000 in collections to assist migrants, mainly from Central America, who are stranded in southern Mexico, according to the Holy See's official Vatican News service. The money, from the church's Peter's Pence collections, will be distributed to 27 projects that 16 Catholic dioceses and religious congregations in Mexico are promoting. The dioceses and congregations have requested assistance in order to help provide food, lodging and other basic needs to the migrants. "In recent months, thousands of migrants have arrived in Mexico, having traveled more than 4,000 kilometers on foot and with makeshift vehicles from Honduras, El Salvador and Guatemala. Men and women, often with young children, flee poverty and violence, hoping for a better future in the United States. However, the U.S. border remains closed to them," Peter's Pence said in a statement. The aid is intended to help the 75,000 migrants who last year arrived in Mexico in six caravans, Peter's Pence added. "All these people were stranded, unable to enter the United States, without a home or livelihood," it said in the statement. "Media coverage of this emergency has been decreasing, and as a result, aid to migrants by the government and private individuals has also decreased." Peter's Pence also said "a regulated and transparent use of the resources, which must be accounted for, is required before the aid is assigned." Thirteen projects have already received approval, and 14 others are currently under evaluation, it said. Last week, Mexican authorities detained hundreds of migrants who were attempting to make their way north to the United States. The crackdowns followed threats by U.S. President Donald Trump, who

NEWS BRIEFS

Mexico Bans Odebrecht From Government Contracts for Three Years

Mexico's government on Friday announced that it had banned scandal-plagued Brazilian construction conglomerate Odebrecht from receiving any federal contracts for three years, Agence France-Presse reported. The company has admitted to paying officials in a dozen countries nearly $800 million in bribes in order to win government contracts.

Former Peruvian Leader Kuczynski Undergoes Emergency Heart Surgery

Former Peruvian President Pedro Pablo Kuczynski, who is under preliminary detention in connection with a bribery scandal involving Brazilian construction firm Odebrecht, underwent emergency heart surgery on Saturday to install a pacemaker, his brother said, Agence France-Press reported. Kuczynski, 80, had been hospitalized the previous week for high blood pressure following his arrest earlier this month. He is one of four former presidents in Peru who have been accused in connection with the massive Odebrecht corruption scandal.

Colombia's Transandino Pipeline Bombed for Seventh Time This Year

Colombia's Trasandino oil pipeline was bombed late on Friday in Pupiales, a municipality in the western Nariño province, causing a spill into a nearby stream, state-run oil company Ecopetrol said, Reuters reported. It is the seventh time the pipeline has been attacked so far this year. The pipeline, which can transport roughly 85,000 barrels of crude daily to the port of Tumaco, was not in operation at the time. Ecopetrol did not say who was responsible, but the National Liberation Army, or ELN, rebels regularly carry out such attacks.

complained that Mexico was not doing enough to stop illegal immigration to the United States and threatened to close the U.S.-Mexico border. Last Thursday, some 1,300 migrants, mainly Cubans, broke out of an overcrowded detention facility in southern Mexico, though about half of them later returned.

BUSINESS NEWS

Petrobras Seeks to Raise $20 Billion in Refinery Sales

Brazilian state oil company Petrobras is looking to raise roughly $20 billion through the sale of eight refineries, Reuters reported Saturday, citing an unnamed source familiar with the matter. On Friday, Petrobras announced its board had approved a plan to sell the refineries, including the recently built Abreu e Lima unit in the municipality of Ipojuca in Pernambuco State, according to a securities filing. Among others, the Gabriel Passos, Gétulio Vargas and Alberto Pasqualini facilities will also be put up for sale, as well as the Landulpho Alves unit in northern Bahia State, one of the largest refineries in Brazil with capacity to process 323,000 barrels of crude per day, the company said. The sale of the refineries could take as long as one year to complete, according to the source. The oil company also has plans to sell a gas station chain it owns in Uruguay and an additional stake in Brazil's top fuel distribution company, BR Distribuidora, in which Petrobras owns a 71 percent stake, the firm said. Petrobras could reduce its stake in BR to as low as 40 percent, according to another source with direct knowledge of the matter, Reuters reported. During his campaign, Brazilian President Jair Bolsonaro, who took office this year, said his administration would sell at least some parts of the state oil company, as well as some state power transmission and distribution units. [Editor's note: See related **Q&A** in the Nov. 2 issue of the Dialogue's weekly Energy Advisor.]

ECONOMIC NEWS

Argentina's Mining Sector Eyes $29 Bn in Investment This Year

Argentina's mining industry will create more than 80,000 jobs and bring some $29 billion in investments this year, according to a new report by the Argentine Chamber of Mining Entrepreneurs, or CAEM, Econojournal reported Friday. The industry exported nearly $4 billion worth of products last year, 10 percent higher than exports a year earlier, making it Argentina's sixth-largest exporting sector, according to the report, BAE Negocios reported. However, the study noted unfulfilled potential in the sector, citing Chile's exports, which have reached $55 billion. "Mining activity, well developed in public policy and with companies' commitment, can be a real engine for countries' development," Marcelo Álvarez, first vice president of the chamber, said at the launch of the report, Econojournal reported. "At the chamber we work day in and day out to create synergies with the states, contribute to better public policies, professionalize the relationship between public and private entities, and create a political and social dialogue that generates a shared vision of a sustainable industry."

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Pemex is skilled in developing, such as shallow water, the company would benefit from farmouts and joint ventures to manage risk and expand its investment capacity. In addition, more focus needs to be paid to areas that have received little interest from Pemex, such as mature oil fields, where incremental production can be had at comparatively low development costs. More than half of Mexico's identified potential is undeveloped, and two-thirds of its prospective resources are idle, but practicality must trump ideology to tap this potential. Based on our recent conversations with government officials, we are optimistic that key decision-makers understand Pemex's need for more flexibility if it is to reach its potential."

A **Fluvio Ruíz Alarcón, Mexican oil sector analyst:** "On various occasions, the government has announced several measures to mitigate Pemex's difficult financial situation. During the approval of the 2019 budget, the Finance Ministry spoke about a capital injection of 25 billion pesos through the Energy Secretariat. Under Pemex's confiscatory fiscal regime, this amount would be more of a tax refund than a true injection of fresh capital. Let's not forget that, at least since former President Ernesto Zedillo's term and until Enrique Peña Nieto's administration, Pemex's tax burden exceeded 100 percent of its operating income. That is, since the end of the last century, what today is the state's producing enterprise has had to borrow just to pay taxes and duties to the Treasury. So far this century, Pemex has had profits after taxes only two years—in 2006 and 2012—despite being one of the most profitable oil companies in the world before taxes. More than conjunctural measures that seem destined to reassure the financial world, what is needed is an in-depth revision of Pemex's fiscal regime, laid out in the Income Law on Hydrocarbons. This revision, as engineer Cuauhtémoc Cárdenas recently pointed out, must go hand in hand with a profound fiscal reform that not only substitutes part of what Pemex contributes today, but that

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also provides the Mexican state with the necessary resources to promote sustainable and equitable development."

A **Raphael Portela, corporate research analyst for Latin America at Wood Mackenzie:** "Turning around Pemex will not be easy—the outlook is tough on all fronts. Its role as a state producing entity means that it bears a heavy tax burden with limited profitability. The result is a portfolio largely comprised of cash flow negative assets and a company forced to turn to debt markets to fund its operations. Using capital from the stabilization fund to pay down debt can provide short-term relief and allow Pemex to focus on its operations. But more change is needed to ensure Pemex's sustainability in the longer term. Increased spending in exploration, development drilling and enhanced oil recovery is needed to arrest declining production. Pemex's fiscal terms must be reviewed, and its tax burden must be reduced to enable the company to be financially self-sustained. The national oil company should also look to streamline its business ventures, focusing only on its best prospects. As a state producing enterprise, Pemex's fate is intertwined with Mexico's. Though the government's dependence on Pemex for fiscal receipts has fallen since the downturn, it still bears responsibility to provide tax revenue. Now and then the Mexican government is forced to step in, absorbing some of the company's pension debt or providing capital injection to pay for obligations. Mexico's ability to issue sovereign debt is negatively affected when part of its budget is used to support Pemex. Thus, it is important that the government enact reforms so that the company can go from a burden to a backer."

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> **— Raphael Portela**

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2019

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
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