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FEATURED Q&A

Will AMLO's Plans Alleviate Pemex's Financial Troubles?



Mexican President Andrés Manuel López Obrador has made strengthening state oil company Pemex one of his stated priorities. // File Photo: Mexican Government.

Q The government of Mexican President Andrés Manuel López Obrador is considering using part of a \$15.3 billion public income stabilization fund to pay some of state oil company Pemex's debt, which has reached roughly \$107 billion. The move would follow 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 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 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 productive enterprise has had to borrow only to pay taxes and duties to the Treasury. So far this century, Pemex has 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

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TOP NEWS

OIL & GAS

Brazil to Pay Petrobras \$9 Bn to Settle Dispute

The Brazilian government will pay the state oil company to settle a deepwater contract dispute, following years of negotiations. The deal paves the way for other oil companies to access crude deposits in Brazil's pre-salt area.

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ENVIRONMENT

Chile Seeks to Be 'More Ambitious' at U.N. Conference

President Sebastián Piñera said Chile will seek "more ambitious" commitments to mitigate climate change at the COP-25 conference, which it will host later this year.

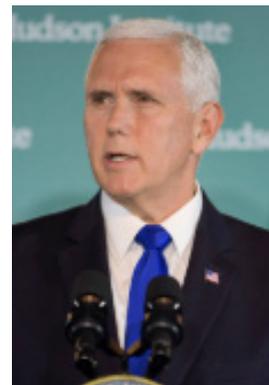
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OIL & GAS

New White House Sanctions Target Venezuelan Oil

In a speech to a Venezuelan exile community in Houston, U.S. Vice President Mike Pence announced new sanctions against President Nicolás Maduro's government, this time targeted at oil shipments between Venezuela and Cuba.

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Pence // File Photo: White House.

OIL AND GAS NEWS

Brazilian Gov't to Pay Petrobras \$9 Billion to Settle Dispute

Brazilian state-owned oil company Petrobras will receive \$9.06 billion to settle a deep-water contract dispute with the government after years of negotiations, Folha de S.Paulo reported Tuesday, citing a statement by the National Energy Policy Council, or CNPE. The settlement paves the way for other oil companies to access enormous crude deposits in the pre-salt area by allowing the auction of blocks to develop oil reserves beyond the five billion barrels that Petrobras is allowed to produce under the 2010 transfer-of-rights contract, Energy Minister Bento Albuquerque told reporters on Tuesday, Bloomberg News reported. The government will pay the compensation in one settlement after the Oct. 28 auction is held, and winners in the tender will have to pay Petrobras for investments the company has already made in the areas, he added. Details including the value of the signing bonuses and the criteria for participation in the auction will be announced on April 17. The additional volumes up for bidding can reach as much as 15 billion barrels of crude oil, which, if commercially recoverable, could represent nearly twice the proved reserves of Mexico or Norway. The government has said the auction could raise as much as 100 billion reais (roughly \$25.9 billion) and help alleviate the country's budget deficit, according to the report.

White House Targets New Sanctions at Venezuelan Oil

The administration of U.S. President Donald Trump on April 5 slapped new sanctions on Venezuela's government, this time targeted at oil shipments between the Andean nation and Cuba, The New York Times reported. Vice President Mike Pence announced the

sanctions in a speech to a Venezuelan exile community in Houston, saying Washington is imposing sanctions on 34 vessels that Venezuelan state-owned oil company PDVSA either owns or operates. The sanctions also apply to two international companies that ship Venezuelan crude oil to Cuba. "Venezuela's oil belongs to the Venezuelan people," said Pence, who on Wednesday addressed the United Nations Security Council on the subject, the newspaper reported. With the sanctions, the Trump administration is attempting to force a "recalibration" of the Venezuela-Cuba



Venezuela's oil belongs to the Venezuelan people."

— Mike Pence

relationship, said top administration officials. Cuba, along with Russia and China, are among the countries that support the government of Venezuelan President Nicolás Maduro, whom the United States and other opponents consider a dictator. The United States and dozens of other countries recognize National Assembly leader Juan Guaidó as the country's acting president. In the short run, the new U.S. sanctions against the Maduro government are designed to put an end to the arrangement through which Venezuela provides Cuba with oil in exchange for intelligence and counter-intelligence, The New York Times reported. On Monday, Venezuelan Foreign Minister Jorge Arreaza said the Andean country would continue honoring its oil commitments with Cuba despite the sanctions, Reuters reported. Venezuela is estimated to be shipping Cuba between 20,000 and 50,000 barrels of oil per day (bpd), according to White House officials and oil industry experts. The sanctions followed a month of frequent power outages in Venezuela that led to the loss of a week's worth of oil production. Output averaged less than 600,000 bpd during the blackouts, Bloomberg News reported, citing unnamed sources. In addition to the power outages, Venezuelans have been suffering shortages of food, water, medicines and other basic goods as well as skyrocketing

NEWS BRIEFS

López Obrador Sends Proposals for New Pemex Advisors to Senate

Mexican President Andrés Manuel López Obrador said Monday that he would send his nominations for three independent advisors on Pemex's board of directors to the Senate for approval, Reuters reported. His proposals, Edmundo Sánchez Aguilar, Juan José Paullada and José Eduardo Beltrán Hernández, would replace three members who were reportedly planning to resign over differences with López Obrador's Pemex management strategy, The Wall Street Journal reported last month. It is unclear whether or not the members have already submitted their letters of resignation, Reuters reported.

Costa Rica Suspends Sale of Gasoline With Ethanol

Costa Rica on Tuesday suspended its recently announced initiative to replace the so-called "Super" gasoline with an 8-percent ethanol blend for at least one year, EFE reported. The government had said state refining monopoly Recope would begin selling fuel with ethanol by the end of May in an effort to reduce emissions but rolled back the decision just three days later following widespread criticism for lack of consultation.

51.2 GW of Renewable Projects Registered for Brazil's Upcoming Tender

Approximately 51.2 gigawatts of renewable energy projects have been registered for Brazil's upcoming auction, scheduled for June 28, according to the country's state-owned energy research firm EPE, Renewables Now reported Monday. The tender, known as A-4, will contract hydro, wind, solar and biomass power purchase agreements that will become effective in 2023. A total of 1,581 developments have been registered to compete for the contracts.

inflation. A top White House official said the newest sanctions would “tighten the noose of the financial strangulation of Maduro and his cronies.” [Editor’s note: See related [Q&A](#) in the Feb. 1 issue of the Energy Advisor.]

Petrobras Announces Sale of Pipeline Unit to Engie-led Group

Brazilian state oil company Petrobras on April 5 announced it had reached a deal to sell its natural gas pipeline network, Transportadora Associada de Gás, or TAG, to a consortium led by France’s Engie for \$8.6 billion, Petrobras said in a statement. The consortium, which includes Canada’s Caisse de Dépôt et Placement du Québec, presented the highest bid for 90 percent of the TAG gas pipeline unit in northern and northeastern Brazil, beating two competing groups led by Itaúsa Investimentos and by EIG Global Energy Partners with Abu Dhabi-based Mubadala Investment, Bloomberg News reported. The difference among the bids was reportedly very small, Reuters reported, citing two sources with knowledge of the matter. One of the sources said Engie subsidiaries in several countries account for 75 percent of the winning consortium, while the Canadian pension fund holds the other 25 percent. Brazilian lenders Itaú Unibanco, Banco Bradesco and Banco do Brasil financed approximately 60 percent of the bid. The transaction is still subject to approval by Petrobras governance and competitive defense bodies.

Peru’s Reserve Estimates Fall 20% After New Evaluation

Estimates of Peru’s oil and gas reserves have fallen by 22 percent and 20 percent, respectively, following the results of a new technical evaluation, the country’s Energy and Mines Ministry said, El Comercio reported Monday. According to the ministry, the significant drop is due to “changes in the technical and eco-

nomical conditions” in Peru’s 67 oil block and its natural gas 57 Block. The former now registers zero oil reserves after initial estimates said it could have some 273 million barrels of proved, probable and possible reserves. Block 57, which also has “zero reserves” of gas, was forecast to have 3.5 trillion cubic feet of certified gas in 2016, El Comercio reported. The newly evaluated volumes of oil and gas have been reclassified as noncommercial volumes for several reasons, including uncertainty over the financial viability of projects at those locations. Paris-based Perenco, which operates Block 67, has not been able to find “an efficient and trustworthy” pipeline to transport the oil, while China’s CNPC has failed to provide a timeline for a project in Block 57, according to the report. [Editor’s note: See related [Q&A](#) in the Aug. 31 issue of the Energy Advisor.]

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

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

ENVIRONMENT NEWS

Chile to Seek ‘More Ambitious’ Proposals at U.N. Conference

Chile will seek “more ambitious” commitments to mitigate climate change at the United Nations COP-25 conference, President Sebastián Piñera said Monday, Reuters reported. The 2015 Paris agreement, which aims to keep temperature increases this century below 2 degrees Celsius, is not enough to “prevent the world from continuing on a path that could end in tragedy,” the president added. Chile is scheduled to host the event, which convenes representatives from nearly 200 nations, in

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 re-

“The proposal to use the stabilization fund is like a band-aid on a gunshot wound.”

— Pedro Niembro

sources. Even in areas that 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

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December. Piñera added that his government would also propose the debate of two “special” topics at the conference, which are the protection of Antarctica and of the oceans, the wire service reported.

POLITICAL NEWS

Peruvian Judge Orders Jail for Ex-President Kuczynski

A Peruvian judge on Wednesday ordered former President Pedro Pablo Kuczynski to spend 10 days in jail and also ordered authorities to search properties in connection with an investigation into a bribery scheme related to Brazilian construction firm Odebrecht, El Comercio reported. Police officials gathered outside the former president’s home in Lima’s financial district and transported Kuczynski to the complex crime division of Peru’s National Police at around 9 a.m. local time. “I don’t have an opinion for now,” Kuczynski said in a phone interview broadcast on local TV channel Panamericana. The former president called the order “ridiculous,” Reuters reported. Kuczynski’s attorney, Nelson Miranda, said he would file an appeal, and the former president’s party on Twitter said the arrest order was “excessive and disproportionate.” Kuczynski, 80, narrowly won Peru’s election in 2016 but resigned less than two years into his presidency to avoid a near-certain impeachment by the opposition-controlled Congress. Prosecutors allege he was involved in “corrupt acts” in connection to public works contracts for highway and irrigation projects that Odebrecht won while Kuczynski was a cabinet minister in former President Alejandro Toledo’s administration, according to a judicial resolution, the wire service reported. Kuczynski’s secretary, Gloria Kistic Wagner, and his driver, José Luis Bernaola Nuño, were also ordered to spend 10 days in jail. While he initially denied any ties to the Brazilian construction giant, Kuczynski eventually acknowledged that his consulting firm had received payments from Odebrecht before he became a minister. However, he says he no



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To learn more about the conference
and to register, click [here](#)

NEWS BRIEFS

Cuba's National Assembly Enacts New Constitution

Cuba's National Assembly on Wednesday enacted the country's new constitution following a speech by Raúl Castro, who heads the Communist Party, state news agency Prensa Latina reported. The constitution modifies the 1976 charter and includes changes such as the creation of a prime minister position and the recognition of some forms of private property. Castro said it will help the island nation achieve "an increasingly prosperous, sustainable, inclusive and participative socialism." [Editor's note: See related [Q&A](#) in the Aug. 3 issue of the Advisor.]

Brazil Will Focus on Fighting Inflation: Central Bank Chief

The Brazilian central bank will prioritize keeping inflation under control, rather than achieving economic growth, central bank chief Roberto Campos Neto said Wednesday during a conference in New York, Reuters reported. Brazil registered annual inflation at 4.58 percent in March, well above forecasts and the highest in two years. Campos Neto identified three main fiscal challenges for the country, which include passing a pension reform, capping public-sector salaries and reducing the interest rate burden on the country's debt load.

Some 1,000 Hondurans Begin Trek Toward U.S.

Nearly 1,000 Hondurans have gathered in the city of San Pedro Sula to begin a trek toward the United States while thousands of other Central American migrants remain waiting for asylum hearings at the U.S.-Mexico border, BBC News reported Wednesday. More than 103,000 migrants were detained in March or deemed "inadmissible" when entering the United States from Mexico, according to U.S. Customs and Border Protection.

longer controlled the company once he took office and denies the payments were bribes.

Assange Arrested After Ecuador Ends Asylum at Embassy

British police on Thursday arrested WikiLeaks founder Julian Assange after Ecuador withdrew the asylum it had granted him in 2012 and which had allowed him to live since then at the country's embassy in London. "Today, I announce that the discourteous and aggressive behavior of Mr. Julian Assange, the hostile and threatening declarations of his allied organization against Ecuador, and especially the transgression of international treaties, have led the situation to a point where the asylum of Mr. Assange is unsustainable and no longer viable," Ecuadorean President Lenín Moreno said in a video statement posted to Twitter. Moreno said Assange has repeatedly violated the rules surrounding his asylum, including by interfering in the affairs of other countries through his work with WikiLeaks. "The patience of Ecuador has reached its limit on the behavior of Mr. Assange." Moreno said Ecuador had requested and received assurances from Britain that Assange would not be extradited to any country where he faces torture or the death penalty. Video showed a bearded Assange yelling at officers as he was dragged out of the embassy into a police vehicle.

ECONOMIC NEWS

Economic Policies 'Bearing Fruit' for Argentina: IMF

The International Monetary Fund's executive board on April 5 released its third review of Argentina's economic progress under its \$56 billion standby financing deal with the country, unlocking another \$10.8 billion in funds, the international lender said in a statement. "The authorities' policies that underly the Fund-sup-

ported arrangement are bearing fruit," IMF Director Christine Lagarde said in the statement. "The high fiscal and current account deficits—two major vulnerabilities that led to the financial crisis last year—are falling." She said there are economic signs that the country's recession "has bottomed out," adding that the IMF expects a gradual recovery in the coming quarters. Argentine statistics institute

The IMF expects Argentina's economy to contract 1.2 percent this year.

Indec in recent weeks has published downbeat economic indicators, including a report that the country's GDP shrank 6.2 percent in the fourth quarter of last year, the worst quarterly performance since 2009, La Nación reported. According to the IMF report, Argentina's economy will likely contract 1.2 percent this year, an improvement of the previous forecast of 1.7 percent contraction. It estimates that inflation will be 30.5 percent this year. An Argentine Treasury official, who asked not to be named, said the IMF program was going as expected and that no further major spending cuts were planned, Reuters reported. [Editor's note: See related [Q&A](#) in the Feb. 19 issue of the Latin America Advisor.]

Venezuela Removes Gold From Central Bank to Sell: Report

Venezuelan President Nicolás Maduro's government has removed eight metric tons of gold from the central bank's vault and is seeking to sell it abroad in order to raise hard currency, Reuters reported Tuesday, citing a lawmaker and a government source. Amid tightening U.S. sanctions, Maduro has increasingly turned to selling gold reserves in order to raise foreign currency. Venezuela's gold reserves have fallen by eight metric tons since the beginning of the year, the government source said.

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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 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,

“ Pemex's fiscal terms must be reviewed, and its tax burden must be reduced...”

— Raphael Portela

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."

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

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Event Notice

Venezuela: Humanitarian Crisis and Struggle for Democracy

Thursday, April 25
9:00 - 10:30 a.m.

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